By the Office of Business Economics

The Economy in Adjustment

A REVIEW OF 1949

NINETEEN FORTY-NINE was another year of high production, income, and employment. The output of the economy was as large as in 1948 in real terms. Major changes from the earlier postwar period occurred in the disposition of output, however, and in the trend of economic activity—which in the first half moved downward for the first time since the reconversion shift from war to peace output 3 years earlier.

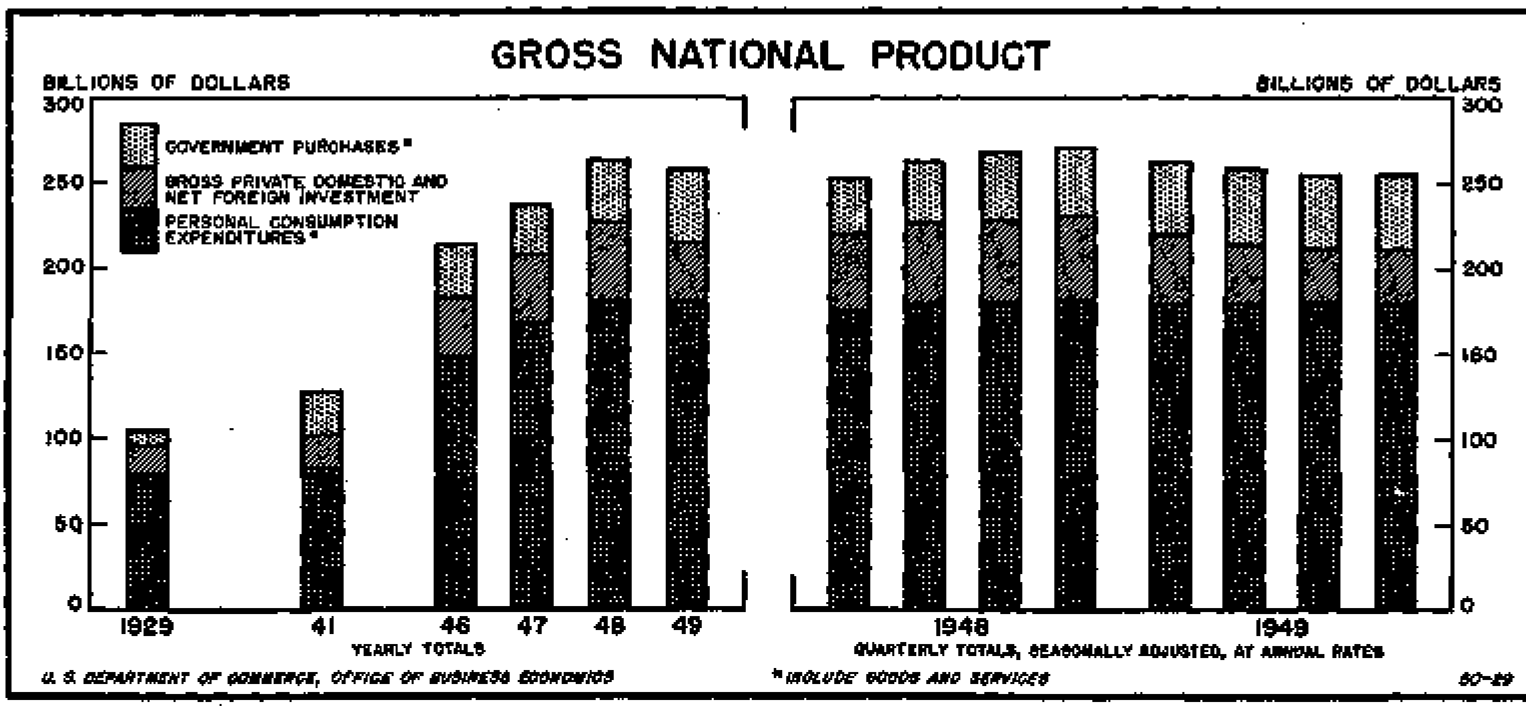
Two preceding full-employment years in which an unusual proportion of output was laid aside for capital accretion had eliminated a great part of the backlog investment demand arising from the war. Swift accumulation of inventories from 1946 through 1948 had brought aggregate business stocks into adequate relation with sales by the end of that period, and in many industries the most urgent needs for expansion in plant capacity and equipment had also been met.

In 1949, the proportion of current output devoted to capital formation was sharply reduced, to a moderate extent because of declining plant and equipment expenditures and net foreign investment, but largely because the inventory buildup of the year before ceased and was succeeded by some liquidation of stocks. Lower capital formation, with the continuance of total output at about the same high volume as in the previous year, permitted a small increase in the flow of goods and services to consumers, at the same time that there was a marked expansion in purchases by all levels of government. On the whole, the consumer on a per capita basis fared at least as well as in any other year, especially when the intangibles of quality, choice, and the previous difficulties of meeting his wants under conditions of short supply are considered.

• *Better balance between supply and demand*

The reduced need for domestic investment, a lessening of foreign demand in our markets as fewer dollars were available to foreign countries, and some diminution in the urgency of consumer requirements for most types of durable goods and for some nondurables, reduced the pressure of aggregate demand. Simultaneously, the improved availability of raw materials, the expansion in the labor force, and the continuing large volume of plant and equipment expenditures expanded total productive capacity. The easing of demand and growth of capacity brought a better balance in supply-and-demand relationships which was reflected in a moderate lowering of prices. The beginnings of these developments had already been evident before the close of 1948.

The modest extent of the price change—1 percent in consumer prices and 6 percent in wholesale commodity prices on a year-to-year basis, although more from monthly peak to trough—was due not only to the maintenance of final demand despite the changes noted, but also to the fact that



major elements in the cost structure remained relatively stable. Labor costs were affected by slightly higher wage rates and increased supplementary benefits, which served to counteract savings from improved productivity and reduced overtime. Transportation costs were higher and overhead costs, including business rent, were marked by little or no change.

Except in agriculture, where prices and income were sharply down from the extraordinary levels of the previous years, price declines were insufficient to affect business earnings from current production very much. Because of the shift in price trends, however, corporate profits and profit margins were substantially reduced when conventionally measured so as to include inventory profits and losses.

• *Downward adjustment in first half*

The shift from inventory rebuilding, which had absorbed output at a high rate in the fourth quarter of 1948, to some inventory liquidation by the second quarter of 1949 provided a severe test of the strength of the economy in the first half of the year. Business investment in plant and equipment and residential construction were also sliding off in the first half. During this period industrial production fell, unemployment increased from the minimal levels prevailing in the preceding 2 years of labor scarcity, and many prices yielded ground.

However, the impact of the adjustment was largely limited to the segments of economic activity directly affected by the decline in investment—particularly manufacturing, mining, and transportation of goods—although agricultural prices, which were affected by other factors, were also moving downward. Moderating the investment impact was an expansion in government buying, while government operations in such fields as farm price supports, lending operations, and unemployment insurance—together with declining tax revenues—exerted a supporting influence in many sectors of the economy.

Supported by sustained high disposable income of consumers and stimulated by an expanding flow of automobiles for which backlog demand continued unsatisfied, aggregate consumer spending, comprising two-thirds of gross national product, held firm. The impact of reduced investment spending was absorbed without touching off a wave of secondary effects elsewhere in the economy such as has at other times instituted a downward spiral of deflation.

• *Stabilization of economy in second half*

By midsummer, the decline in aggregate investment had been checked. The rate of inventory liquidation began to diminish as the underlying core of demand made necessary a revival of business orders, and substantial recovery occurred in residential construction for which the backlog of demand continued large.

During the last half of the year these two favorable factors approximately offset further declines in business expenditures for producers' durable equipment and nonresidential construction, and a reduction in foreign investment. Concurrently with the stabilization of aggregate investment, however, the expansion of government buying ceased. With these formerly dynamic factors at comparative rest during the second half of the year, sales, production, employment and prices were nearly stable in most industries. Some increases were appearing, particularly in industrial segments, and such declines as continued—as in agricultural prices—were taking place at a diminished rate.

The year was thus divided into two dissimilar periods. The first half was one of adjustment from the inflationary movement of the earlier postwar period which had culminated late in 1948. The adjustment is seen in retrospect to have been remarkably mild insofar as the over-all situation is concerned, though it sharply affected individual business concerns and to some extent whole industries, and brought lessened employment opportunities for labor. The second half was one of over-all stability within which were embraced moderate advances in some of the earlier declining segments. As a whole the year's results, in terms of real production, were practically on a par with those of 1948.

• *Personal sector stable*

A feature of the year's developments was the extraordinary stability of the consumer sector. A slight down trend in personal income was associated with the farm component; monthly data for nonagricultural income showed an extreme variation between the high and low month of only 2 percent, and 11 of the 12 months were within a 1-percent range. Consumer expenditures, available only quarterly, showed virtually no variation at all, while monthly data for total retail sales confirmed the quarterly stability. Accompanying the steadiness of consumer income and outlays, the monthly index of consumer prices showed only minor changes during the year.

With their January 1949 positions somewhat below the 1948 peaks, personal income, retail sales, and consumer prices all averaged a little less in 1949 than in 1948. Disposable personal income was maintained, despite the small reduction in personal income, because of lower personal taxes. Personal consumption expenditures and personal savings were also the same as in 1948. The reduction in consumer prices was such as to indicate an increase of about 1.6 percent in the real flow of goods and services moving to consumers.

• *Diversity of economic movements*

Among the myriad of detailed economic series many were higher in 1949 than in 1948, while many others were lower. This circumstance is apt to yield an impression of extraordinary diversity of economic behavior in this period. To some extent this impression is, indeed, valid, for the 1949 adjustment struck heavily at some areas of the economy while leaving others untouched.

Nevertheless, it should be pointed out that if rates of change, rather than merely direction, are taken as the significant measure of variation, the differences in movement were not notably greater in 1949 than in previous years. In 1947 and 1948, for example, the dispersion had been against a background of sizable increases in aggregate production, average prices, and other summary measures. These general measures changed relatively little from 1948 to 1949.

It is with this caution as a preliminary that subsequent sections of this review record the diversity of experience in various fields. Thus, it is pointed out that consumer expenditures for automobiles and services were higher, but current dollar expenditures on most commodities decreased. In industrial production, manufactured foods, automobiles, and aircraft, among others, were above 1948, but a majority of industries were lower. In the field of construction activity, public, institutional, and utility construction were higher, residential construction was little changed, and industrial and commercial construction were down. Employment outside manufacturing was above 1948 in the aggregate, but the contraction in manufacturing was sufficient to carry with it the all-industry total.

Prices, both at wholesale and those paid by consumers, displayed a similarly mixed pattern. Price declines were largest, most pervasive, and most continuous in the volatile field of farm products and foods, which prices had paced the war and postwar rise. Among industrial commodities for which wholesale quotations are available, declines outnumbered advances during the period of adjustment in the ratio of 3 to 2 (with about one-fifth of all quotations unchanged), and the average for retail commodities was slightly lower. The predominant movement in the prices of consumer services was upward. In general, prices which had advanced most in preceding years fell farthest in 1949, while those which had previously advanced least continued upward, so that on the whole the price structure moved closer to prewar relationships.

• *Position at year end*

In view of the shifting pattern of business behavior over the course of the year and of the divergent trends of various economic indicators, it is desirable to summarize the position of the economy as the year ended.

In the fourth quarter of 1949, the gross national product in current dollars was 6 percent below the fourth quarter of 1948, its peak. The decline in physical terms was much smaller. Employment in December was down a little more than 1 percent from the end of 1948. Retail sales were slightly below the previous year in dollar amount, but in physical terms they were a little higher. From December 1948 to December 1949 consumers' prices were off 2 percent and wholesale commodity prices 7 percent.

The year concluded with a tone of firmness in most areas of economic activity. The two largest sources of demand for the gross national product—government and consumers—were buying at a stable rate. In the offing for consumers was the non-recurring receipt of the $2.8 billion National Service Life Insurance dividend and State veterans' bonus payments—to be partly offset, however, by an increase in employee contributions to the Federal Old Age and Survivors' Insurance fund at an annual rate of nearly one-half billion dollars.

The most notable expansionary influence was the markedly rising trend of residential construction, which was beginning to carry commercial construction upward with it. This revival was sufficient to bring total private construction back to its peak by the fourth quarter of 1949. Further, the rate of liquidation of nonfarm business inventories had slackened. With business buying more closely geared to current sales for final use, this major factor of change in 1949 was no longer exercising its retarding influence.

Exerting a contrary force were the steady declines in business purchases of durable equipment, and in industrial construction. Surveys of business plans indicated that these declines would continue into 1950 as backlog demands were further reduced, despite low costs of financing. Also operating on the down-side was the contraction in foreign trade, notably in exports of agricultural products, and in the export balance.

National Income and National Product in 1949

GROSS national product—the market value of the Nation's output of goods and services—amounted to $257 billion in 1949, as compared with $262 billion in 1948. The national income, which measures output in terms of earnings accruing from current production, showed a similar movement, from $226 billion in 1948 to $221½ billion in 1949.

Production thus continued at a very high rate during the past year. In neither of these major aggregates was the decline in dollar value more than 2 percent. Personal income, which measures all incomes received by persons, including transfers, was maintained even better. The decline was only 1 percent, from $212 billion to $210 billion.

When allowance is made for lower prices in 1949, it would appear that the change in the physical volume of production was slight, although evidence is at present insufficient to permit actual measurement. Available data also suggest that in private nonagricultural industries as a whole increases in productive efficiency approximately offset small declines in employment and in the average workweek.

Although aggregate production in 1949 differed little from that in 1948, significant shifts occurred in the use of the Nation's output. These shifts were reflected in variations in the pace of economic activity during 1949 and in the changed pattern of the income flow.

Maintenance of final demand

There were marked differences in movement between the inventory and noninventory elements of national output. In 1948, $6.5 billion, or 2½ percent of gross national production, was devoted to net additions to business inventories, whereas in 1949 there was a net reduction of $2.3 billion. Four-fifths of the $9 billion swing stemmed from the movement of nonfarm business inventories; farm inventories contributed about $2 billion.

That the total reduction in the value of national production from 1948 to 1949 was slight is attributable to the fact that the flow of goods and services to final purchasers—that is, domestic consumers, fixed capital investors, government, and foreign nations—increased from $256 billion to $260 billion. The substantial growth of Federal and State and local government purchases was responsible for the increase. But even exclusive of the government component, final purchases made a favorable showing. Thus, the dollar volume of personal consumption expenditures in 1949 was about the same as in 1948; and the decline in business investment in fixed capital assets, including residential construction, was of moderate proportions.

Reduction in inventories

On a quarterly basis also, final purchases showed a high degree of stability, and fluctuations in inventory investment were the immediate cause of the major changes in the pace of economic activity during the year. The shift from a net inventory accumulation of $9 billion at annual rates in the fourth quarter of 1948 to a net reduction of $3 billion in the second quarter of 1949 is reflected in the business recession that developed during this period.

The mildness of the recession—national income and national product declined less than 5 percent—is traceable to the sustained strength of final demand. Inventories continued to be reduced during the second half of the year, but no further shifts in the *rate of change* comparable to those of the first half occurred. In turn, over-all economic activity, as measured by national income and product, was stabilized in the latter part of 1949.

The pattern of the income flow reflected these changes. In the nonfarm sector, the decline in national income was centered in manufacturing, where reduced inventory requirements resulted in a curtailment of production. Income originating in other industrial divisions of this sector was, in general, much better maintained. Farm income shrank sharply, as a consequence mainly of lower agricultural prices.

These salient features of the economic situation are traced in greater detail in the following review of the income and product flows.

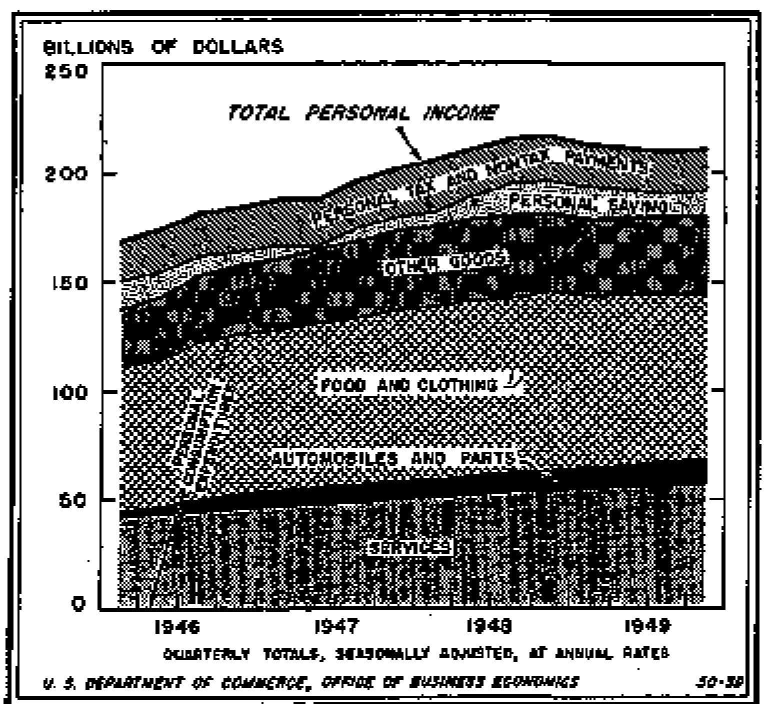
Private Domestic Demand for Gross National Product

Over-all stability of consumption

Personal consumption expenditures last year, at $179 billion, were about the same as in 1948 in dollar volume and somewhat larger in real terms. After a decline of modest proportions in the first quarter from the record level of the previous year end, the total remained almost constant in each succeeding quarter.

A major cause of this stability, which is depicted in chart 2, was that income available for consumer spending and saving was maintained better than income originating in productive activity. In contrast to the $5-billion decline in national income, consumer disposable income held up in 1949. Stable disbursements of dividends and other property incomes to individuals in spite of a reduced business earnings, an increase in government transfer payments, and lower individual income taxes were the major factors accounting for the difference.

Chart 2.—Disposition of Personal Income



1 Includes food and alcoholic beverages, and clothing and shoes.

Source of data: U. S. Department of Commerce, Office of Business Economics.

Also, the ratio of consumption to disposable income firmed, after declining in 1948. In interpreting this evidence of the firming of consumer demand, it should be noted that larger automobile purchases underlay the increase of the over-all income-consumption ratio during 1949. These purchases, still reflecting accumulated shortages, increased in each quarter except the fourth, when model changes interrupted the flow to consumers. For the year as a whole, automobile purchases were $2 billion, or about one-fourth, above the total for 1948. The ratio of consumption exclusive of automobiles to income was approximately constant during the year.

The movements of consumer purchases of durables other than automobiles were mixed. Furniture and household equipment sales had sagged in the last quarter of 1948 and continued downward through mid-1949. In the second half of the year, however, there was a partial recovery, led by television sets, but including refrigerators, other appliances, and—toward the end of the year—home furnishings. Despite these upswings, purchases of durables other than automobiles declined from $15 billion to $14 billion from 1948 to 1949.

Expenditures for nondurables were $99 billion in 1949, more than $3 billion below the 1948 total. Purchases of most of these items declined throughout the year. Food and clothing were the major factors in the decrease. Outlays for other nondurable goods also diminished, but not, on the whole, very substantially. The reduction in food expenditures reflected largely price movements, as aggregate volume was approximately maintained. However, retail sales data suggest an appreciable shift towards home consumption. Grocery store sales were scarcely changed from 1948, while sales of eating and drinking places fell 7 percent—nearly twice as much as consumer food prices. Expenditures for apparel were reduced 8 percent from 1948 to 1949, with price and volume factors contributing fairly equally to the decline.

Consumer expenditures for services rose from $53 billion in 1948 to $56 billion in 1949, continuing the steady advance of earlier postwar years. Housing, including the imputed rental value of owner-occupied homes, was the biggest single element in the 1949 increase.

Weakening of domestic investment

Both fixed capital formation and business inventory investment declined last year, the former moderately and the latter by substantial proportions. The contrast between them is shown in chart 3, where the solid line indicates total gross private domestic investment, the dotted line fixed investment, and the shaded area between them the change in business inventories. The striking feature of the chart is the rapid shift from inventory accumulation at the rate of $9 billion annually in the final quarter of 1948 to liquidation in the second and subsequent quarters of 1949.

Fixed investment down moderately

Private fixed investment amounted to $37 billion in 1949, a reduction of $1½ billion from the previous year. There was a marked contrast in movement between residential construction and investment in business plant and equipment.

Residential building which, on a seasonally adjusted basis, declined substantially from the third quarter of 1948 into the second quarter of 1949, picked up thereafter and was an expansionary force in the economy during the latter half of the year. Improved opportunities for financing and some success of the building industry in tapping unsatisfied demands for less expensive types of housing appear to have been significant factors in the upturn, although it is not clear that they provide a full explanation. The rapidly expanding secondary mortgage market provided by the Government through the Federal National Mortgage Association undoubtedly contributed to the easing of financing opportunities.

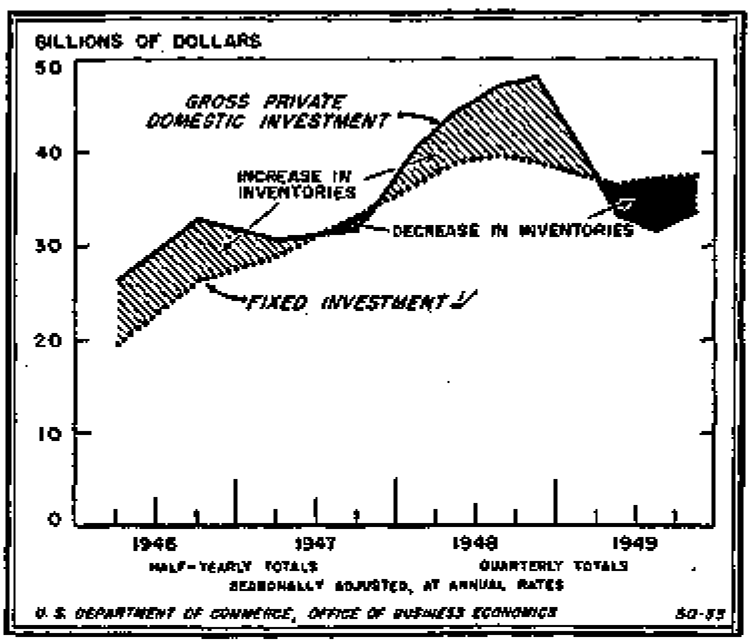
Downward tendencies in most types of plant and equipment expenditures were evident throughout 1949, reflecting the gradual completion of war-deferred expansion programs and probably also the effects of lower sales and profits expectations. Industrial building accounted for most of the decline in plant expansion. Commercial construction also fell off during the first 3 quarters, but firmed toward the year end. An exception to the general trend was furnished by public utility construction, which advanced well beyond 1948 levels before tapering off in the fourth quarter.

Business purchases of durable equipment decreased from $21 billion in 1948 to $20 billion last year. Industrial machinery constituted the biggest element of this decline, which was concentrated in manufacturing. Railroad investment in rolling stock and other equipment held up well for the year, although it diminished during the latter half. Other transportation industries purchased considerably less equipment than in 1948. Agricultural machinery, while bought in larger dollar amounts last year than in 1948, was in reduced demand during the past several quarters.

Reduced inventory demand

Last year's inventory liquidation of $2.3 billion was in marked contrast to the accumulation of $6.5 billion in 1948. By the end of 1948 inventories had been rebuilt after the war depletion to a volume about in line with high post-war sales, and business demand for this purpose dropped.

Chart 3.—Gross Private Domestic Investment



[1] Includes new construction plus producers' durable equipment.

Source of data: U. S. Department of Commerce, Office of Business Economics.

A shift from a situation in which part of current production was being used to build up inventories to a situation in which part of current demand was satisfied by depletion of them occurred rather rapidly, reflecting more cautious buying policies adopted by business generally in the face of uncertainties about prices and sales.

Widespread cut-backs of new orders began in the Fall of 1948 and continued on an accelerated scale until February of last year. With the time lag involved in altering business commitments, production was lowered in response to smaller orders. As has been pointed out earlier, current demand other than for inventory purposes was relatively well maintained, and as a consequence the part of production which went into inventory accumulation was greatly reduced in the first quarter of 1949. In the second quarter, a moderate inventory liquidation occurred as production was cut below the prevailing rate of total final purchases.

Maintenance of a high level of final purchases led to an increase in business purchasing to a volume in line with this sustained final demand. This was evidenced by the sharp pick-up of manufacturers' new orders in August and September. Despite this firming, production in each of the last 2 quarters remained lower than consolidated business sales. This reflected the normal lag in adjusting production to demand, as well as special factors interrupting production, such as the steel strike. Thus, the drawing down of inventories continued, but no fluctuations in net inventory purchases comparable to those of the first half of the year occurred.

Liquidation of nonfarm inventories for 1949 as a whole occurred mainly in manufacturers' stocks. Retailers and wholesalers reduced their inventories during the first half of 1949. In the second half, a further moderate liquidation of retail holdings occurred, while wholesalers more than restored their stocks. At the end of the year, trade inventories combined were only slightly lower in physical volume (although much lower in book value) than at the close of 1948.

The farm inventory change was minus $½ billion last year, as compared with plus $1¼ billion in 1948. The shift in farm holdings reflected an increased physical volume of crop marketings, coupled with somewhat lower crop production. Livestock inventories showed a slight increase. It should be noted that increased price-support acquisitions by the Federal Government, which are included in farm marketings, were responsible for part of the difference in farm inventory movements in the last 2 years. Total crop carryovers, inclusive of Government holdings, increased further in 1949, although not so sharply as in 1948.

Foreign Demand and the Role of Government

Last year's decline in private domestic purchases of the Nation's output was largely offset by expanded purchases of the Government sector. The Federal and State and local governments absorbed goods and services valued at $43 billion in 1949, as compared with $37 billion the previous year. Net foreign investment, the remaining component of the gross national product, declined from $2 billion to approximately zero.

Large-scale financing by the Federal Government of foreign purchases of American output deprives the conventional distinction between "Government purchases" and "net foreign investment" of some of its significance, and makes it desirable during the postwar years to consider these components of aggregate demand jointly. For example, a shift from loans to grants in financing foreign aid will cause an increase in Government purchases and an offsetting decline in net foreign investment, because foreign grants are included in the former category, whereas loan-financed exports are reflected in net foreign investment. While such a shift would not be without significance, it would not necessarily reflect changes either in the flow of goods and services or in the basic sources of effective demand, and would be misleading if these are the focus of interest. Shifts of this type were not substantial from 1948 to 1949, but they were in earlier postwar years, and allowance should therefore be made for them.

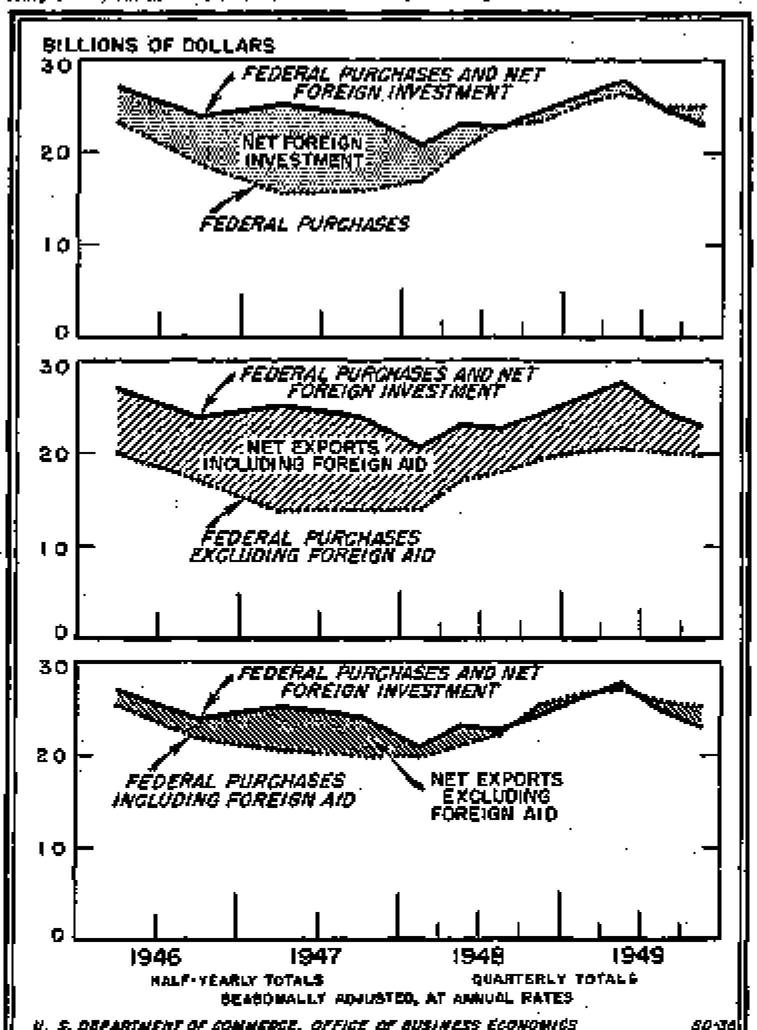
This is done in chart 4, which breaks down the sum of the conventional classifications of Federal purchases and net foreign investment (top panel) to show, first, the net international flow of goods and services—irrespective of the source of financing—as distinct from Government purchases for domestic purposes (middle panel); and, second, the net international flow of goods and services, exclusive of foreign aid as distinct from Federal purchases inclusive of all foreign aid, loans as well as grants (bottom panel). The last panel is the closest statistical approximation to a break-down reflecting the basic sources of effective demand, and hence is best adapted for analyzing the fiscal impact of the Federal Government.

Drop in commercial exports

It is clear from this panel that commercially financed foreign demand, already far down from earlier postwar years by 1948, slackened further last year, especially in the latter half. The exceptional volume of exports characteristic of our postwar foreign trade reflected primarily the enormous needs of war-devastated economies abroad, and

Chart 4.—Break-downs of Federal Government Purchases of Goods and Services, and Net Foreign Investment

NOTE.—U. S. Government foreign aid excludes United States subscriptions to capital of the International Bank for Reconstruction and Development and the International Monetary Fund, but includes dollar disbursements by these organizations.



Source of data: U. S. Department of Commerce, Office of Business Economics.

was supported not only by large-scale assistance from the U. S. Government, but by a very heavy drawing-down of gold and dollar reserves. By 1949, these reserves had approached low levels, and a further shrinkage in the second quarter was followed by nearly world-wide devaluation of currencies in the Fall. As a reflection of these critical developments abroad, there was a large reduction of American exports after midyear, with some restoration of foreign countries' gold and dollar reserves by the year end.

Expansion of Government purchases

The dotted line in the lowest panel of chart 4 reflects Federal Government purchases, inclusive of all foreign aid. It will be seen that an expansion began early in 1948, and that purchases increased through the first half of 1949, tapering off thereafter. A few major programs were primarily responsible for this large growth. Chief among them were military procurement, foreign aid, and agricultural price support activities.

Military expenditures rose rapidly from the third quarter of 1948 through mid-1949, after which they were stabilized by economy measures in the National Military Establishment. Foreign aid, relatively low in the second quarter of 1948 after exhaustion of the British loan, expanded again with initiation of the European Recovery Program, reaching a peak in the second quarter of last year. Farm price support outlays for the calendar year exceeded those for 1948, although on a seasonally adjusted annual rate basis they did not rise beyond the previous fourth quarter. There was also a moderate expansion of public works and pay rolls, with increases in both civilian and military pay rates contributing to the latter.

State and local government expenditures advanced throughout the year, so that total purchases in 1949 were $2 billion above 1948. Principal components of this growth were increased compensation of employees and a growing volume of school, highway, and other new construction.

Changes in fiscal position of government

The influence of government expenditures and receipts upon the economy in the past 2 years was not confined to the expansionary force of increased purchases. Other expenditures, such as transfer payments, as well as changes in government receipts, provided significant support to private components of aggregate demand through their effects upon individual and corporate incomes. A comprehensive summary of all these transactions is provided by the course of the government surplus or deficit.

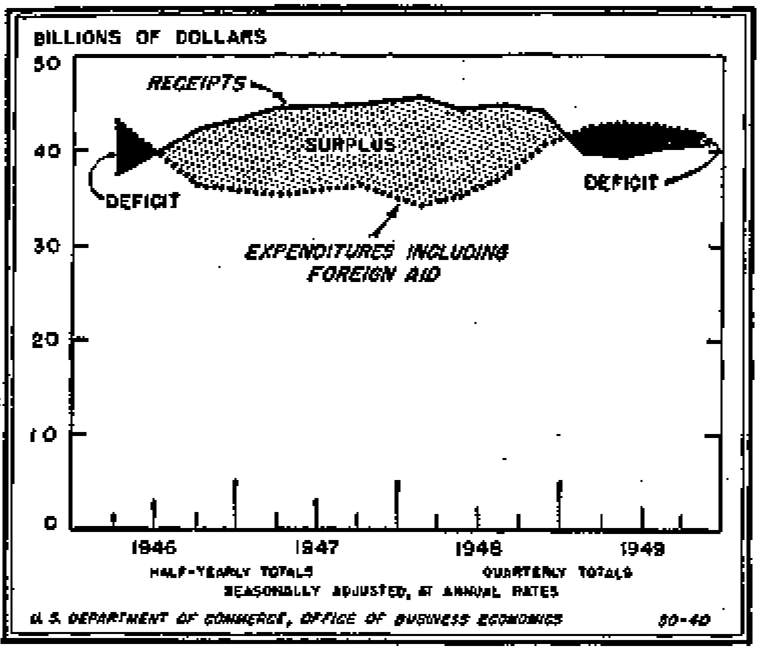
Federal, State, and local governments together, after showing a combined surplus (as measured in the context of the national income accounts) of $8½ billion in 1948, incurred a deficit of $3 billion last year. Federal Government components of this shift are illustrated, in broad outline, in chart 5. The State and local contribution, not shown in the chart, was of lesser magnitude, but reinforced the Federal movement during the past 2 years.

Some of the changes summarized in the shift from surplus to deficit were such as to provide independent stimulus to the private economy, while others were linked explicitly to a falling-off of business activity. Only the former type can fully offset downward trends in the private sector. The latter may have a cushioning effect, but can occur only to the extent that the declines with which they are associated materialize.

For example, personal incomes were supported in 1949 by a $1 billion rise in transfer payments. This rise, however, consisted mainly of unemployment insurance benefits and was predicated entirely upon the actual growth in unemployment. It eased the impact of the latter upon personal incomes, but could not entirely replace the ensuing loss of wages. Similarly, the fall of $2 billion in corporate profits tax accruals was in response to a decline of book profits.

On the other hand, a reduction of $2.8 billion in Federal personal taxes stemmed mainly from year-end settlement of individual income tax liabilities at rates lower than those applicable in 1948, and tended to bolster disposable personal income independently of influences from other sources. With the exception of price-support operations activated by falling

Chart 5.—Federal Government Receipts and Expenditures [1]



[1] Receipts consist of personal tax and nontax receipts, corporate profits tax accruals, indirect business tax and nontax accruals, and contributions for social insurance. Expenditures consist of purchases of goods and services, net foreign loans, transfer payments, grants-in-aid to State and local governments, net interest paid, and subsidies less current surplus of government enterprises.

Source of data: U. S. Department of Commerce, Office of Business Economics.

farm prices, that part of the fiscal shift embodied in expanding purchases of goods and services also contributed directly to private incomes regardless of existing trends in the latter.

National Income by Industries

Despite the relative stability of the national income from 1948 to 1949, there were significant shifts in its distribution by industrial origin. As shown in table 1, there were sizable declines in income originating in agriculture, mining, and manufacturing. Marked increases, on the other hand, occurred in government and in communications and public utilities. Comparatively minor changes were recorded for the other industrial divisions.

Table 1.—National Income by Major Industrial Divisions, 1948 and 1949 [1]

[Billions of dollars]

Item	1948	1949	Absolute change, 1948–49	Percentage change, 1948–49
All industries, total	226.2	[2] 221.5	−4.7	−2.1
Agriculture, forestry, and fisheries	22.5	17.9	−4.6	−20.4
Mining	4.9	4.1	−.8	−17.1
Contract construction	10.2	10.3	.1	1.1
Manufacturing	68.2	64.6	−3.6	−5.3
Wholesale and retail trade	45.1	45.3	.2	.5
Finance, insurance, and real estate	16.7	17.3	.6	3.4
Transportation	12.2	11.8	−.4	−3.2
Communications and public utilities	5.9	6.6	.7	11.3
Services	20.0	20.9	.9	4.4
Government and Government enterprises	20.0	22.3	2.3	11.5
Rest of the world	.5	.5	0	0

[1] Components will not necessarily add to totals because of rounding.
[2] See footnote 3 to table 2.

NOTE: Estimates of national income by industrial origin for the entire 1929–48 period may be obtained from the National Income Supplement to the July 1947 SURVEY OF CURRENT BUSINESS and the July 1949 SURVEY (National Income Section), table 13.

Source: U. S. Department of Commerce, Office of Business Economics.

Sharp drop in agricultural income

The largest decrease, both relative and absolute, was in agriculture, where income originating dropped from $22.5 billion to $17.9 billion. Farm production in 1949 was down by about 3 percent from 1948, but by far the most important factor in the decline of agricultural income was the drop of 13 percent in farm prices. The drop was mitigated by large-scale price-support outlays of the Federal Government.

The decline in prices received by farmers appeared to stem primarily from materialization of a second consecutive year of large-volume production, as 1949 output, while below 1948, remained high in comparison with all prior years. The supplies thus made available, when added to sizable carryovers of inventories from 1948, were sufficient to exert a downward pressure on prices. Some diminution in the intensity of consumer demand may also have been present, as was a prospective weakening of export demand. In fact, although agricultural exports increased for the year as a whole, in the second half they were far below the exceptional amounts sent abroad in the first.

The proportion of national income accruing from agriculture in 1949 was substantially lower than in the immediately preceding years of high farm prices, but it compared favorably with that prevailing in the prewar period. It should be noted in this connection that depreciation charged in the calculation of income originating is on a current-replacement cost basis for agriculture, but on an original-cost basis for other industries. The application of either procedure, on a consistent basis, to all industries would raise appreciably agriculture's share of the national income in recent years, when owing to rising prices there was a widening gap between replacement cost and original cost.

Decline in manufacturing

Among the nonagricultural industries, the largest absolute decrease occurred in manufacturing, which accounts for roughly 30 percent of the national income. Income originating in this industry fell by nearly $4 billion, or 5 percent. This reflected primarily the direct effects of the 1949 inventory recession upon manufacturing. This industry is in a particularly sensitive position with respect to business inventory policies, because it produces the bulk of inventory goods held in the economy. Both reduction of output and lower prices contributed to the adverse movement of income originating in manufacturing, although the former was considerably the more important factor.

Apart from manufacturing, the only major nonagricultural industries in which income originating declined in 1949 were the closely allied mining and transportation groups. The disproportionate decline in the former is traceable mainly to coal mining, where output was curtailed by a prolonged 3-day workweek and several work stoppages. In transportation, the decrease was accounted for by the railroads. Loss of income normally earned in hauling coal was a significant special factor.

Favorable showing of other industries

The maintenance or increase of income originating in other nonagricultural industries in 1949 was a broad reflection of the continued strength of final demand for the Nation's output. In trade, services, contract construction, and finance, insurance and real estate, 1949 incomes matched or slightly exceeded those of the preceding year. In government and in communications and public utilities, relatively large increases, about 11 percent, were recorded. Both the Federal and the State and local governments contributed to the rise of income originating in government, which is measured by compensation of employees. Continued strong and expand-

Table 2.—National Income and Product, 1948 and 1949 [1]

[Billions of dollars]

Item	1948	1949	Quarterly: Unadjusted I	Unadjusted II	Unadjusted III	Unadjusted IV	Seasonally adjusted at annual rates I	Seasonally adjusted II	Seasonally adjusted III	Seasonally adjusted IV
NATIONAL INCOME BY DISTRIBUTIVE SHARES										
National income	226.2	[3] 221.5	55.8	55.2	55.3	(4)	224.7	220.8	220.7	(4)
Compensation of employees	140.3	141.1	34.9	35.2	35.4	35.7	141.9	140.8	141.1	140.8
Wages and salaries	135.3	135.6	33.5	33.7	34.0	34.4	136.5	135.4	135.6	136.2
Private	116.1	114.6	28.2	28.5	29.1	28.8	116.1	114.7	114.4	113.6
Military	3.9	4.2	1.0	1.0	1.1	1.1	4.1	4.1	4.2	4.5
Government civilian	15.2	16.8	4.1	4.3	3.9	4.5	16.3	16.6	16.9	17.3
Supplements to wages and salaries	5.0	5.5	1.4	1.4	1.4	1.3	5.4	5.5	5.5	5.6
Proprietors' and rental income [2]	49.5	44.8	11.8	11.3	10.9	10.9	47.1	45.1	43.1	43.7
Business and professional	24.5	24.0	6.0	6.0	6.0	6.0	24.1	24.1	24.0	24.0
Farm	18.4	14.1	4.1	3.6	3.1	3.2	16.4	14.3	12.6	12.9
Rental income of persons	6.6	6.7	1.7	1.7	1.8	1.7	6.7	6.7	6.6	6.8
Corporate profits and inventory valuation adjustment	32.6	[3] 31.4	8.1	7.7	8.1	(4)	31.6	30.7	32.3	(4)
Corporate profits before tax	34.8	[3] 28.8	7.6	6.6	7.3	(4)	29.4	26.4	28.9	(4)
Corporate profits tax liability	13.6	[3] 11.4	2.9	2.6	2.9	(4)	11.5	10.6	11.4	(4)
Corporate profits after tax	21.2	[3] 17.3	4.6	3.9	4.4	(4)	17.9	15.8	17.5	(4)
Inventory valuation adjustment	−2.2	2.6	.5	1.1	.8	.2	2.2	4.3	3.3	.7
Net interest	3.8	4.2	1.0	1.0	1.1	1.1	4.1	4.2	4.2	4.3
Addendum: Compensation of general Government employees	17.8	19.9	4.9	5.0	4.7	5.3	19.3	19.6	20.1	20.7
GROSS NATIONAL PRODUCT OR EXPENDITURE										
Gross national product	262.4	257.4	63.2	62.5	64.2	67.6	262.0	257.9	254.6	255.2
Personal consumption expenditures	178.8	179.4	42.0	44.5	44.1	48.7	178.7	179.3	179.7	179.8
Durable goods	22.6	24.4	6.0	5.8	6.3	7.2	23.0	23.8	25.7	25.2
Nondurable goods	102.2	98.9	23.1	24.6	23.7	27.4	100.4	99.6	97.6	97.7
Services	53.1	56.1	13.9	14.0	14.1	14.2	55.2	55.9	56.5	56.9
Gross private domestic investment	45.0	34.7	10.4	6.4	9.6	8.3	40.0	33.2	32.1	33.7
New construction	17.0	17.3	3.5	4.1	4.9	4.8	16.8	16.4	17.4	18.7
Producers' durable equipment	20.7	19.7	5.0	5.0	4.9	4.8	20.7	20.0	19.6	18.7
Change in business inventories, total	6.8	−2.3	1.9	−2.7	−.2	−1.3	2.5	−3.2	−5.0	−3.7
Nonfarm only	5.1	−1.8	1.7	−2.6	.1	−1.1	1.9	−2.5	−4.0	−2.8
Net foreign investment	1.9	.0	.2	.4	−.2	−.4	1.0	1.3	−.3	−2.0
Government purchases of goods and services	36.7	43.4	10.4	11.2	10.7	11.0	42.3	44.2	43.2	43.7
Federal	21.6	25.8	6.4	6.7	6.4	6.3	25.5	26.7	25.8	25.2
Less: Government sales	.6	.4	.1	.1	.2	.1	.3	.3	.8	.2
State and local	15.6	18.0	4.1	4.6	4.5	4.8	17.1	17.8	18.2	18.8
DISPOSITION OF PERSONAL INCOME										
Personal income	211.9	209.8	52.1	52.5	51.7	53.6	212.4	210.0	208.2	209.3
Less: Personal tax and nontax payments	21.1	18.6	7.3	3.3	4.4	3.6	18.8	18.6	18.6	18.6
Federal	19.0	16.2	6.6	2.7	3.8	3.1	16.4	16.2	16.2	16.1
State and local	2.1	2.4	.7	.6	.6	.5	2.4	2.4	2.4	2.5
Equals: Disposable personal income	190.8	191.2	44.8	49.2	47.3	49.9	193.4	191.4	189.6	190.7
Less: Personal consumption expenditures	178.8	179.4	42.0	44.5	44.1	48.7	178.7	179.3	179.7	179.8
Equals: Personal saving	12.0	11.8	2.8	4.7	3.2	1.2	14.8	12.1	9.9	10.8
RELATION OF GROSS NATIONAL PRODUCT, NATIONAL INCOME, AND PERSONAL INCOME										
Gross national product	262.4	257.4	63.2	62.5	64.2	67.6	262.0	257.9	254.6	255.2
Less: Capital consumption allowances	15.7	16.8	4.1	4.2	4.2	4.3	16.4	16.9	16.9	17.2
Indirect business tax and nontax liability	20.3	21.2	5.0	5.2	5.5	5.5	20.6	21.2	21.8	21.4
Business transfer payments	.6	.6	.2	.2	.2	.2	.6	.6	.6	.6
Statistical discrepancy	−.3	−2.5	−1.8	−2.2	−.9	(4)	.0	−1.3	−5.0	(4)
Plus: Subsidies less current surplus of Government enterprises	.1	.3	.1	.1	.1	.1	.3	.3	.3	.3
Equals: National income	226.2	[3] 221.5	55.8	55.2	55.3	(4)	224.7	220.8	220.7	(4)
Less: Corporate profits and inventory valuation adjustment	32.6	[3] 31.4	8.1	7.7	8.1	(4)	31.6	30.7	32.3	(4)
Contributions for social insurance	5.2	5.6	1.5	1.5	1.4	1.3	5.4	5.6	5.6	5.5
Excess of wage accruals over disbursements	.0	.0	.0	−.1	.0	.0	.1	−.3	.0	.0
Plus: Government transfer payments	10.5	11.6	2.8	2.9	2.9	3.0	11.2	11.7	11.9	11.6
Net interest paid by government	4.4	4.7	1.0	1.4	1.0	1.3	4.6	4.6	4.7	4.7
Dividends	7.9	8.4	1.8	2.0	1.9	2.7	8.3	8.2	8.1	8.9
Business transfer payments	.6	.6	.2	.2	.2	.2	.6	.6	.6	.6
Equals: Personal income	211.9	209.8	52.1	52.5	51.7	53.6	212.4	210.0	208.2	209.3

[1] Detail will not necessarily add to totals because of rounding.
[2] Includes noncorporate inventory valuation adjustment.
[3] Data for estimating fourth-quarter corporate profits are not yet available. In order to arrive at national income and corporate profits for the year, corporate profits for the fourth quarter were obtained arbitrarily through averaging the results derived by holding constant, first, third-quarter corporate profits before tax, and second, third-quarter corporate profits and inventory valuation adjustment. It is believed that annual totals calculated on this basis will be sufficiently accurate for general purposes.
[4] Not available.

NOTE.—Data for prior years are published in the July 1949 SURVEY OF CURRENT BUSINESS and in the National Income Supplement to the July 1947 SURVEY.

Source: U. S. Department of Commerce, Office of Business Economics.

ing demand for their services underlay the advance in the communications and public utility industries. Despite this improvement, the share of national income earned in these industries in 1949 was smaller than in prewar years.

Distributive Shares of National Income

The changes in the distributive shares of national income from 1948 to 1949 were almost entirely the byproduct of industrial developments, rather than of independent movements among the distributive shares as such.

Employee compensation stable

Total compensation of employees, which accounts for nearly two-thirds of the national income, was virtually unchanged from 1948 to 1949. Its composition, however, was altered considerably, and a moderate downward trend was apparent in the first half of last year.

Private wages and salaries were about $1½ billion lower than in 1948. This small decline stemmed from reduced employment and, in lesser degree, from a slightly shorter average workweek. Roughly three-fifths of the total reduction in man-hours, however, was offset by moderate, but fairly general, increases in average hourly rates of pay.

The drop in private wages and salaries in 1949 was materially greater from the high rates of late 1948 than on an annual average basis. It was concentrated in the first half of the year, however, and confined largely to manufacturing pay rolls. As early as May, slight monthly advances began to show up in nondurable-goods industries, although the falling trend for manufacturing as a whole continued at a reduced rate through midsummer. By August, the decrease of durable-goods factory pay rolls was halted, and during the remainder of the year stability prevailed, except for the effects of the steel strike.

Steady increases in wages and salaries of government employees during 1949 sufficed to counterbalance most of the decline in the private sector. These movements, however, were not large enough to obscure the predominance of factory pay rolls in the quarterly pattern of total wages and salaries.

Nonfarm proprietors' income well maintained

The proprietors' and rental income share embraces groups whose 1949 experience diverged widely. Business and professional earnings and rental income of persons were generally well maintained. Because of the preponderance of the corporate form of organization in manufacturing, the year's developments in that industry had little direct impact upon total proprietors' income. Factory proprietors sustained a relatively large loss of earnings, as might be expected, but this did not figure heavily in the total.

Nearly all of the decline in total proprietors' and rental income occurred in the income of farm proprietors. The substantial reduction in farm proprietors' net income—from $18.4 billion to $14.1 billion—was the principal change in the distributive shares of national income from 1948 to 1949.

Net income of farmers declined steadily throughout the quarters of 1949. The accuracy of the general downward movement, which was a byproduct largely of falling prices, is not in doubt; but precision should not be attached to the exact quarterly changes. Because of the discontinuous character of farm production, seasonal adjustments are difficult in this area; and special problems are encountered in measuring the inventory component of farm income on a less-than-annual basis.

Change in corporate profits share slight

Information on corporate profits in 1949 is at present confined to published reports for the first 3 quarters of the year, as reviewed in last month's issue of the SURVEY. However, a fairly adequate basis for comparison with the previous year is provided by the estimates for the first 3 quarters in combination with an arbitrary assumption about the fourth, as described in footnote 3 to table 2. It is believed that totals yielded by this assumption will be near enough to the final estimates for most general purposes.

The corporate profits component of national income—"corporate profits and inventory valuation adjustment"—was an estimated $31.4 billion in 1949, as compared with $32.6 billion in the preceding year. The decline in this measure of corporate earnings was very much less than that shown by "corporate profits before tax". The sizable drop in the latter measure, from $34.8 billion to $28.8 billion, reflected very largely the predominant corporate practice of charging inventories to cost of sales in terms of prior-period prices, rather than current replacement prices.

In 1948, when prices were rising, the replacement cost of inventories used in production exceeded the reported "book" cost; and the opposite was true in 1949, when the course of prices was downward. The "inventory valuation adjustment"—the difference between the book cost and the current replacement cost of inventories used in production—is added to reported profits before tax in order to eliminate inventory profits and losses and thus secure a measure of earnings from current production appropriate for inclusion in the national income.

The sharp difference between the two profit series helps to explain one striking aspect of corporate financial policy in 1949—the steady flow of dividend disbursements in the face of the apparent substantial decline in total profits. Not only were corporate profits including the valuation adjustment well maintained in 1949 on a before-tax basis, but they actually increased on an after-tax basis. Tax liabilities declined by more than $2 billion because of the substantial drop in book profits, on which they are based.

Accordingly, after account is taken of reduced dollar requirements for inventory replacement and for income taxes, corporate profits available for distribution and reinvestment actually were higher in 1949 than in the previous year. In addition to these, other factors—such as diminished investment needs in many industries and the unusually low proportion of dividend distribution throughout the war and in the postwar periods, when capital outlays by business for expansion created extraordinary demands for investment funds—undoubtedly contributed to the maintenance of dividend disbursements in 1949.

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The Trend of Prices

PRICES declined moderately in 1949, in contrast with the inflationary upswing in progress from the end of the war through the late summer of 1948. The reversal in movement reflected the passing of widespread scarcities typical of the earlier postwar period and the adjustment in business investment and production which characterized the year. Though the reduction in prices had important repercussions upon the economy—and especially upon the purchasing policies of business—it achieved no great momentum during the year and, in fact, left some sectors of the price system entirely unaffected. Overall, wholesale prices declined by less than 7 percent from the end of 1948 to the end of 1949. Consumer prices were down by 2 percent.

In industrial markets the downtrend was halted in July and was followed by stability as business purchasing and industrial production improved. Farm and food prices yielded ground throughout the year, but at a gradually retarded rate. Among consumers' prices, moderately rising rents and services nearly offset reductions for most commodities.

Limiting the price declines through the year were the firmness in demand of final consumers, the heavy support for farm products provided by the Government, and the stability of important elements in the cost structure of the majority of industrial goods. Labor costs were buttressed by higher wage rates and larger contributions to pension and welfare funds which served to counteract savings accrued from improved productivity and reduced overtime. Transportation costs were higher and overhead costs of business, including rent, were marked by little or no change.

The scattering of adjustments in the Nation's markets—illustrated by the wide variety in the dates of price peaks by type of commodity, shown in table 3—was another factor which may have minimized the amplitude of the downswing.

Table 3.—Changes in Wholesale and Consumer Prices

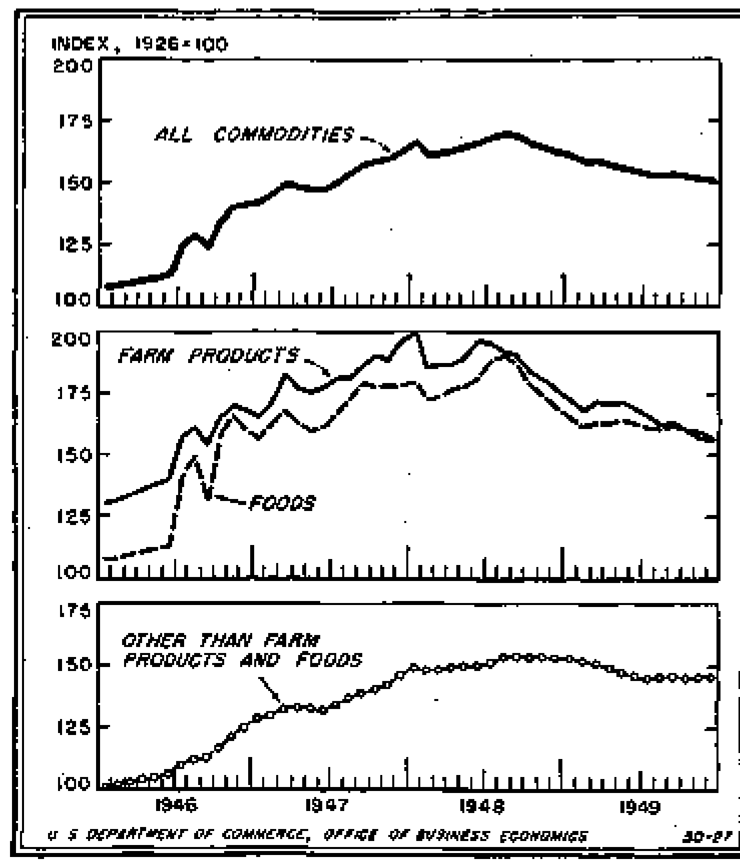
Item	1939	Postwar peak	December 1948	December 1949	Percent change: 1939 to postwar peak	Percent change: Postwar peak to December 1949	Percent change: December 1948 to December 1949
Wholesale prices (1926=100)	77.1	169.8 (Aug. 1948)	162.4	151.3	+120.2	−10.9	−6.8
Farm products	65.3	199.2 (Jan. 1948)	177.3	155.3	+205.1	−22.0	−12.4
Foods	70.4	189.5 (Aug. 1948)	170.2	156.7	+169.0	−18.6	−8.3
Other than farm products and foods	81.3	153.6 (Sept. 1948)	153.1	145.5	+88.9	−5.3	−5.0
Hides and leather products	95.6	203.4 (Dec. 1947)	185.3	179.9	+112.8	−11.6	−2.9
Textile products	69.7	163.1 (May 1948)	144.7	138.4	+118.3	−9.0	−6.7
Fuel and lighting materials	73.1	137.6 (Nov. 1948)	137.2	130.8	+88.2	−4.9	−4.7
Metals and metal products	94.4	175.5 (Feb. 1949)	173.8	167.8	+85.9	−4.4	−3.5
Building materials	90.5	204.1 (Sept. 1948)	202.2	190.3	+125.5	−6.8	−5.9
Chemicals and allied products	76.0	137.6 (Apr. 1948)	131.1	115.3	+80.9	−10.1	−12.1
Housefurnishings goods	86.3	148.8 (Jan. 1949)	145.4	144.1	+72.4	−3.2	−0.9
Miscellaneous	74.8	123.6 (Jan. 1948)	118.5	110.7	+65.2	−10.4	−6.6
Consumer prices (1935-39=100)	98.4	174.5 (Aug. 1948)	171.4	167.5	+76.4	−4.0	−2.3
Food	95.2	216.8 (July 1948)	206.0	197.3	+127.7	−9.0	−3.8
Apparel	100.5	201.6 (Oct. 1948)	200.4	185.8	+100.6	−7.8	−7.3
Fuel, electricity, and refrigeration	99.0	139.7 (Dec. 1949)	137.8	139.7	+41.1	0	+1.4
Housefurnishings	101.3	198.8 (Oct. 1948)	196.6	185.4	+96.2	−6.7	−5.6
Rent	104.3	122.2 (Dec. 1949)	119.5	122.2	+17.2	0	+2.3
Miscellaneous	100.7	155.5 (Dec. 1949)	154.0	155.5	+54.4	0	+1.0

Source: U. S. Department of Commerce, Office of Business Economics, from data of U. S. Department of Labor, Bureau of Labor Statistics.

Changing structure of prices

Accompanying the modest decline in the general level of prices, however, was a pronounced alteration in their internal structure. Essentially, this adjustment mirrored the realignment of market forces as the abnormal relations between demand and supply characteristic of the postwar period were replaced by more balanced conditions. Typically sensitive prices, which had increased sharply because of strong inflationary pressures in earlier years, moved closer to the general level in 1949. Foremost among these, as depicted in chart 6, were farm prices which had advanced more than any other major group throughout the war period—and also in the postwar years under the impetus of the world food crisis.

Chart 6.—Wholesale Prices



Source of data: U. S. Department of Labor, Bureau of Labor Statistics.

Other highly sensitive prices which had advanced most during the inflationary rise such as nonferrous metals, scrap steel, wood pulp, hides, fats and oils and petroleum products, likewise declined materially. Many of these raw and semimanufactured material prices remained high—and later in the year some regained part of the ground they had lost—but in general these movements tended to restore relationships among prices more in line with those prevailing in prewar years.

Limited reductions in industrial markets

The downtrend in industrial prices was not only shortlived—ending in July, as noted above—but it affected less than half of all industrial prices. This is shown in table 4 which presents a distribution of changes for 777 prices included in the Bureau of Labor Statistics' wholesale price index.

In August 1949, 53 percent of all commodities, excluding farm products and foods, were unchanged from, or were actually higher than, the quotations prevailing in August 1948 when the over-all index was at its peak. At the same time, an additional 4 percent of these commodities were less than 2 percent below the August 1948 prices. On the average, industrial prices were down during this period by somewhat more than 5 percent, and remained generally stable from this point to the end of the year.

Table 4.—Distribution of Percent Changes in Wholesale Prices August 1948 to August 1949

Amount of percent change	Farm products and foods		Commodities other than farm products and foods	
	Number of commodities	Percent of total	Number of commodities	Percent of total
Total	138	100.0	639	100.0
Percent increases:				
0.1–1.9	6	4.4	41	6.4
2–4.9	5	3.6	51	8.0
5–9.9	14	10.1	67	10.5
10–14.9	6	4.4	22	3.4
15–19.9	1	.7	9	1.4
20 and over	6	4.4	9	1.4
Total increases	38	27.6	199	31.1
Unchanged	10	7.2	139	21.8
Percent decreases:				
0.1–1.9	2	1.5	25	3.9
2–4.9	13	9.4	57	8.9
5–9.9	20	14.5	64	10.0
10–14.9	14	10.1	51	8.0
15–19.9	8	5.8	44	6.9
20 and over	33	23.9	60	9.4
Total decreases	90	65.2	301	47.1

Source: U. S. Department of Commerce, Office of Business Economics, from data of U. S. Department of Labor, Bureau of Labor Statistics.

Included among the stable or rising group of prices were such important commodities as steel, automobiles, tractors and other farm machinery, heavy chemicals and construction materials such as brick, tile, and plumbing and heating equipment. Together, the commodities in this group shared one or more of the following three characteristics: (1) demand was sustained at a high rate throughout the period of adjustment, as in the case of automobiles, cement and certain other types of building materials; (2) price increases from prewar through 1948 were appreciably smaller than the corresponding rise in the general price level, as in the case of steel, many chemicals and most utility rates; (3) prices are typically sluggish and unlikely to change materially except under the influence of a revision in the demand or cost situation which is both large and enduring, as in the case of farm machinery.

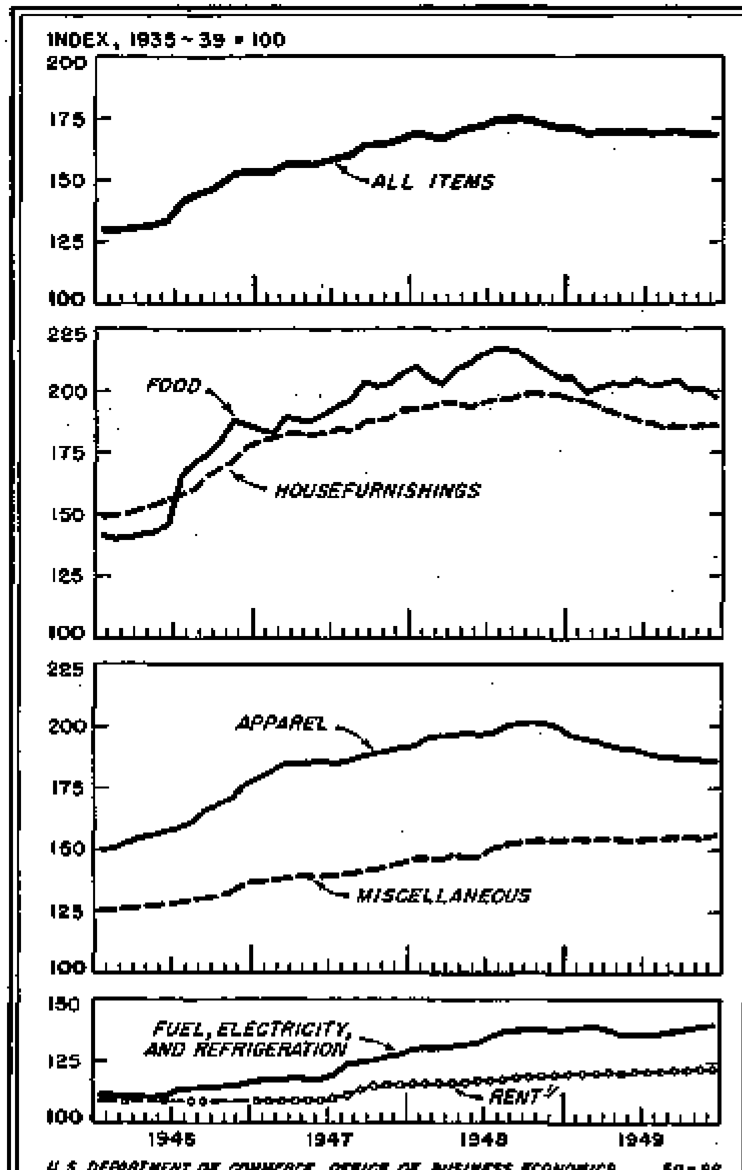
Competition increasing

It should be noted, however, that stable price quotations in 1949 were in some cases coupled with trimming of extra charges, increases in discounts or improvements in quality, all of which reflected the growing pressure of competition and resulted in some reduction in actual net costs to purchasers. There was in addition, particularly among consumer goods such as washing machines, some lines of men's apparel, television sets and vacuum cleaners, a more abundant supply of medium and low-end items which in 1948 were produced in only limited volume if at all.

Farm prices weaken

For farm products and foods, the average decline as well as the proportion of reductions was substantially greater than for industrial commodities. As indicated in table 4, 63 percent of all such commodities were more than 2 percent lower in August 1949 than in August 1948, and in 40 percent of all cases the reductions amounted to more than 10 percent. The weighted average of farm and food prices declined 15 percent in this period and in contrast to the industrial segment, the downward trend persisted, though at a diminished rate, in the last 4 months of the year.

Chart 7.—Consumers' Prices



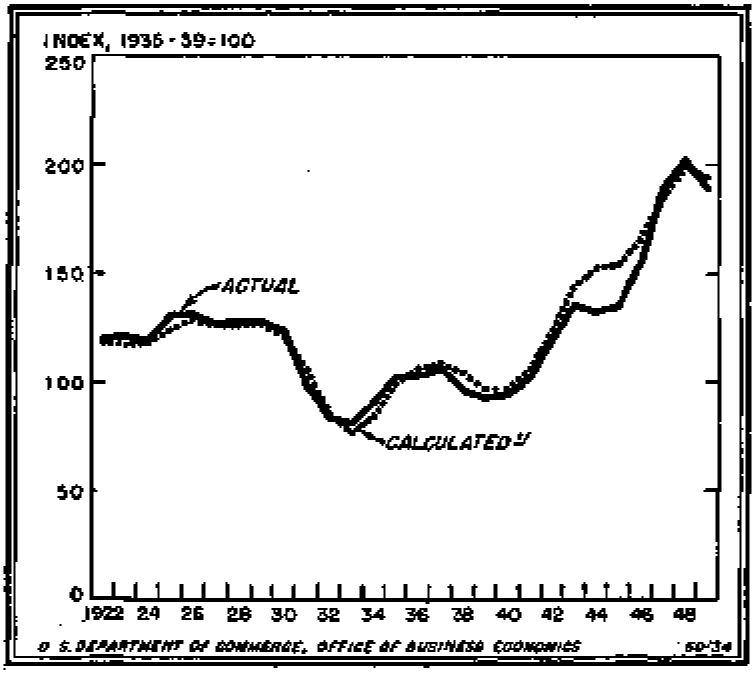
[1] Data are available only for March, June, August, and September of 1946.
Source of data: U. S. Department of Labor, Bureau of Labor Statistics.

While these declines represented a considerable adjustment from the extraordinary supply-demand conditions prevailing in the earlier postwar period, even at the end of 1949 farm and food prices were high in relation to those for other commodities when compared with the prewar situation in either 1939 or 1926, as shown below:

Percent Increase in Wholesale Prices

Item	December 1926 to December 1949	December 1939 to December 1949
Farm products	93.6	129.7
Foods	54.8	110.6
Commodities, other than farm products and foods	46.5	73.4

Chart 8.—Retail Prices of Foods Derived From Domestic Farm Products: Actual and Calculated



[1] Calculated from a linear least squares regression of the logarithms of retail food prices on the logarithms of prices received by farmers for the equivalent physical quantities of foods sold at retail, adjusted for the lag in retail prices, for the years 1922–41.

Sources: Basic data, U. S. Department of Agriculture, Bureau of Agricultural Economics; indexes for Actual and Calculated, U. S. Department of Commerce, Office of Business Economics.

Small reduction in living costs

In the aggregate, living costs were influenced only modestly by the 1949 adjustment in wholesale prices. The over-all reduction was 2 percent, though some further saving to consumers resulted from quality improvements and the greater availability of low-end items noted above. Rents moved upward slowly over the year, as controls were relaxed in many areas of the Nation. Persistently strong demand maintained prices of almost all services, of automobiles and certain other durables, and of most pharmaceuticals.

Some slackening in demand was reflected in the declines of about 7 percent in prices of apparel and housefurnishings, depicted in chart 7. Contributing to these reductions were lower material costs and also the virtual elimination of backlog demands for radios and such electrical appliances as vacuum cleaners. Furniture prices were also depressed by a lag in expenditures early in the year, but in this case there was a subsequent firming associated with the rise in residential building.

Relationship between retail food and farm food prices

Food costs were only moderately lower—by about 4 percent—in December 1949 as compared with December 1948. When appraised on the basis of historical performance, however, this decline was approximately in line with the 15 percent reduction in prices of food at the farm. Changes in retail prices normally follow farm prices only after a lag, and the amplitude of variation is usually smaller because of the sluggishness of distribution and processing costs.

The closeness of the relationship between retail and farm prices of food—and the consistency of behavior in this respect during 1949—is illustrated in chart 8. The calculated line depicts the cost of food to consumers as derived from the average relationship between comparable retail and farm prices during the years 1922 through 1941. The near coincidence of actual and calculated lines—except for the war years when price controls limited distributive margins—suggests the high degree of consistency with which this historical relationship has been followed.

Devaluation has minor effects

Except for shortlived fluctuations in prices of internationally traded raw materials, in the short period from September through the end of the year, the domestic price level was little affected by the devaluation of foreign currencies by Great Britain and 29 other nations in September and October. Domestic demand remained the dominant factor determining prices of most imported commodities, consumed in large quantities in the United States, with the major exception of coffee which rose on indications of crop damage in Brazil. As described in the chapter on foreign trade, adjustments in international prices are still in progress and it is as yet too early to evaluate the impact of revisions in exchange rates upon the competitive positions of the nations affected.

Industrial Production

THE adjustment in business activity in 1949 was reflected more directly in the manufacturing and mining segment than in any other major area of economic activity except agriculture. Total industrial production, which reached a peak rate in the fourth quarter of 1948, was reduced significantly through the early summer of 1949 and recovered partially thereafter.

Existing data representing the course of total industrial production do not provide exact measures of actual changes in output of all of the various industries. An analysis of the production data of the Board of Governors of the Federal Reserve System and of the data on the value of manufacturers' sales of the Office of Business Economics, adjusted to a production basis and for price changes, indicates that for the year 1949 as a whole the decline in total industrial production was moderate, about 5 percent below the record peacetime volume of 1948.

The cut-backs were fairly widespread by industries and were much sharper for the durable-goods group than the nondurables. Automobiles provided a major exception to the trend, as consumers continued to purchase cars in quantities limited during most of the year only by the industry's capacity to produce.

The reduced industrial output which in many cases was below sales was primarily due to: (1) The more cautious purchasing policy adopted by business in general during the year, so that while part of the production in 1948 went for additions to inventories, this was not the case in 1949, and (2) a reduction in demand for producers' durable goods in line with the reduction of business capital outlays. Manufacturers' dollar sales—part of which were made from inventory in 1949 in contrast to 1948 when all were made from current production—were only 6 percent below 1948 and about half of this reduction was due to lower prices. The partial recovery in production which occurred in the last 5 months of the year reflected the maintenance at a high level of final demand.

In contrast to previous postwar years there were no pronounced raw material shortages, and no problem of filling distributive pipe lines. Only in automobiles did production problems still retard the attainment of peak output, and in this case the volume of production exceeded the previous high of 1929.

Greatest declines in durable goods

The sharpest decline in manufacturing activity during 1949 was in the heavy-goods industries, which were affected by both the inventory adjustment and the slackening in demand for producers' durable goods.

The effect of the decline in business outlays for capital equipment was evident in the production trends of almost all producers' durables, including especially machine tools, most types of industrial machinery, transportation equipment, mining and oil-well equipment, and integral and fractional horsepower motors. Over the year, declines in the value of manufacturers' shipments for these commodities ranged from 14 to well over 25 percent. Notable exceptions to the general downward trend were heavy electrical equipment, reflecting the continued expansion in investment by electric utilities, and heavy construction machinery which mirrored the record volume of building activity.

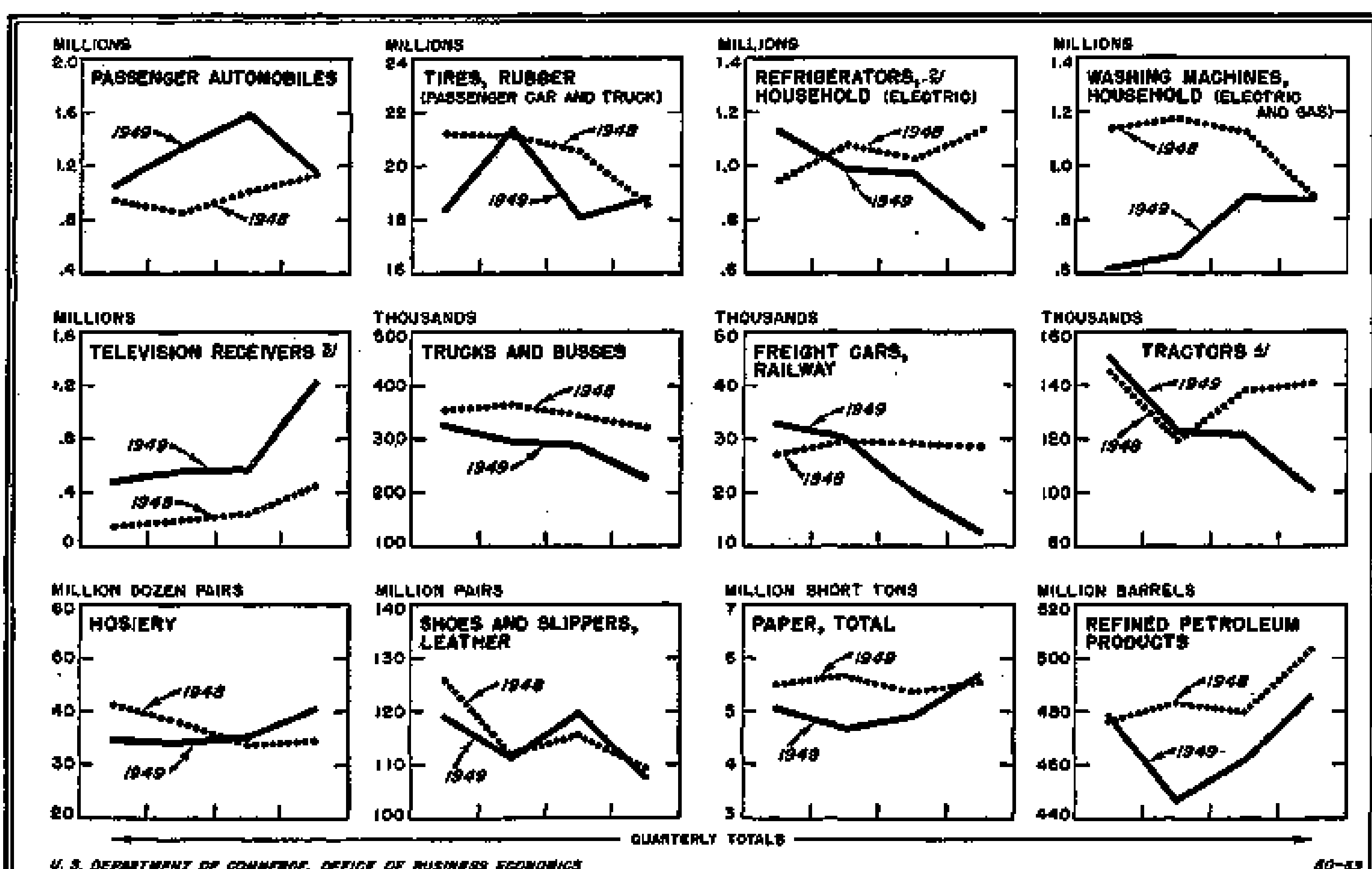
The magnitude of the reduction in selected segments of the transportation equipment industry is depicted in chart 9. In the case of freight cars, the precipitous fall in monthly shipments from the peak rate of 12,600 cars in March to 3,400 in December followed the sharp reduction in new orders placed by railroads during the year. While output for the year as a whole remained high, backlogs were reduced from 107,000 units at the beginning of 1949 to 12,500 at the end of December, the lowest in the postwar period.

All of the drop in truck production in 1949—from around 1.4 million to 1.1 million—occurred in the middle-weight and heavy duty classifications where volume in the two preceding years was at an exceptionally high rate. Lower agricultural incomes as well as diminished backlogs were reflected in a substantial reduction in output of tractors for farm use.

Steel reflects adjustment

The over-all reduction in activity in the durable-goods industries was reflected in the operation of the Nation's steel mills in 1949. Following a high first quarter in which output totaled a record 24 million tons of steel ingot and castings, production moved sharply downward in line with the behavior of the principal consuming industries, except automobiles and construction. At the low point in July the weekly ingot rate was 61 percent of rated capacity compared with over 100 percent of capacity earlier in the year.

Chart 9.—Production of Selected Durable and Nondurable Manufactured Products [1]



[1] Data represent production or shipments.
[2] Data represent only shipments reported by members of the association.
[3] Include radio and radio-phonograph combinations. Data represent approximately 100 percent of the industry based upon monthly production reported by members of the association.
[4] Include wheel and tracklaying types, but excludes garden type.

Sources of data: Passenger cars and trucks, Automobile Manufacturers Association; tires, Rubber Manufacturers Association; refrigerators, National Electrical Manufacturers Association; washing machines, American Washer and Ironer Manufacturers Association; television receivers, Radio Manufacturers Association; freight cars, American Railway Car Institute; tractors, *Implement and Tractor*, Implement Trade Journal Company; hosiery, National Association of Hosiery Manufacturers; shoes, U. S. Department of Commerce, Bureau of the Census; paper, American Paper and Pulp Association; refined petroleum products, U. S. Department of the Interior, Bureau of Mines.

The subsequent recovery was interrupted by the work stoppage in October, but in December output was pushed to an average of 95 percent of rated capacity to meet the rising backlog of new orders accumulated during the strike. For the year as a whole, production of steel ingots and castings aggregated 77.9 million tons, about 12 percent below 1948.

Nondurable goods reflect steady demand

In the nondurable-goods segment production in 1949 was considerably more stable. In clothing and food lines, demand was well maintained during the year and some price reductions from the high 1948 levels helped to sustain the volume of consumption. In other lines producing finished goods, such as shoes and tobacco, output was typically stable.

Activity in industries producing semifinished commodities, however, reflected the general adjustment of inventories which retarded output especially during the first 7 months of the year. Lines particularly affected included textile fabrics and paper, which declined by nearly 25 percent and 15 percent, respectively, to the midsummer low. Nevertheless, subsequent recovery was swift and by December output was as high as, or higher than, in 1948. In petroleum products—shown in chart 9—plentiful supplies of home heating oils carried over from the previous year remained a depressing influence, and even with the increase in output of refined products in the second half of the year the production rate at year end was still below that of a year ago.

Consumer goods output high

The record output of passenger cars more than offset the declines from 1948 peaks in most other consumer durables. Aided, except at the year end, by adequate supplies of steel for the first time since the end of the war, the industry rolled out over 5.1 million passenger cars in 1949, about 1.2 million more than in 1948 and well over 500,000 above the previous record number produced in 1929. The sharp decline in assemblies in November and December, depicted in the chart, was due in large measure to model change-overs as well as to the effects of the work stoppage in steel.

With backlog demands in most cases materially reduced, production declines of major electrical appliances, outside the new and growing television industry, ranged from 7 to nearly 35 percent below volumes of the previous year. With the exception of radios, however, output exceeded the 1941 rate by a considerable margin as shown in the table below:

Percent Change in Production of Electrical Appliances

Appliance	1941 to 1949	1948 to 1949
Electric refrigerators	+35	−7
Washing machines	+55	−30
Vacuum cleaners	+73	−14
Electric ranges	+44	−34
Electric water heaters	+230	−32
Radios, including phonograph combinations	−19	−34
Television receivers		+180

It is notable that the reduction in output of refrigerators was relatively modest and attributable in the main to the material shortage in the final quarter of the year following the work stoppage in steel mills. Of additional interest is the pick-up in shipments of washing machines late in the year—depicted in chart 9 stimulated by the introduction of lower priced models as well as the completion of a record number of new dwelling units.

Smaller decline in manufacturers' sales

The total dollar value of manufacturers' sales in 1949 was $213 billion, 6 percent below the peak of $228 billion in 1948, as shown in table 5. A large part of the drop in sales reflected lower prices and when adjusted for price changes the decline in sales was less than that in output.

Dollar sales of the durable- and nondurable-goods industries were lowered in the same proportion, with the sharper physical output decline in durables roughly balanced by the more extensive price cuts for nondurable goods. Movements in sales of each group throughout the year were similar to those of total sales, but in the soft-goods lines the post-summer pick-up was somewhat stronger.

Table 5.—Value of Manufacturers' Sales

[Millions of dollars]

Industry	1939	1947	1948	1949 [a]
All manufacturing	61,340	205,165	228,008	213,400
Durable-goods industries, total	22,454	82,567	94,713	89,100
Iron, steel, and products	6,079	20,615	24,184	21,200
Nonferrous metals and products	1,725	6,639	7,368	6,300
Electrical machinery and equipment	1,561	8,772	9,499	8,800
Machinery, except electrical	3,571	13,545	15,278	13,900
Automobiles and equipment	3,578	11,540	13,827	16,400
Transportation equipment, except automobiles	855	3,711	4,859	5,300
Lumber and timber basic products	1,154	4,625	5,478	4,800
Furniture and finished lumber products	1,385	4,369	4,917	3,900
Stone, clay, and glass products	1,362	3,973	4,493	4,400
Other durable-goods industries	673	4,575	4,366	4,100
Nondurable-goods industries, total	38,886	122,598	133,295	124,300
Food and kindred products	11,253	36,590	37,588	35,100
Beverages	1,242	6,914	6,161	7,200
Tobacco manufactures	1,334	3,026	3,302	3,300
Textile-mill products	4,090	13,246	14,697	12,400
Apparel and related products	3,202	11,393	12,474	10,300
Leather and products	1,218	4,379	3,848	3,400
Paper and allied products	1,785	6,234	6,622	6,400
Printing and publishing	2,512	6,901	6,711	7,000
Chemicals and allied products	4,390	13,608	14,626	13,900
Petroleum and coal products	5,266	16,052	20,140	18,900
Rubber products	1,072	3,517	3,505	3,200
Other nondurable-goods industries	949	3,503	2,623	3,500

[a] Preliminary.

Source: U. S. Department of Commerce, Office of Business Economics.

Total sales of the non-durable-goods industries in 1949 were $124 billion compared with $133 billion in 1948. All industries within the group, except beverages, tobacco, and printing and publishing, reported a lower value of goods shipped than in the previous year. The largest declines—each in excess of 10 percent—occurred in textile, apparel, and leather.

Durable-goods sales totaled $89 billion. Increases over 1948 sales approached 20 percent for motor vehicles and 10 percent for other transportation equipment—with aircraft showing the major increase in the latter group. All other groups declined.

Order backlogs decline in 1949

Orders placed for manufactured goods, where orders are not measured by sales, were smaller than sales in 1949—the

Table 6.—Ratios of Manufacturers' New Orders to Sales

Item	1948		1949	
	First half	Second half	First half	Second half
All manufacturing	0.98	0.98	0.93	1.00
Nondurable-goods industries	.99	.98	.98	1.01
Durable-goods industries	.99	.97	.86	.99
Iron, steel, and products	1.01	.98	.85	1.08
Nonferrous metals and products	.96	.97	.90	1.06
Electrical machinery and equipment	.94	1.00	.87	.98
Machinery, except electrical	.93	.97	.90	.88
Transportation equipment, except autos	1.32	1.02	.60	.70
Other durable-goods industries	.98	1.00	.93	1.02

Source: U. S. Department of Commerce, Office of Business Economics.

difference representing a reduction in the backlog of orders on hand at the end of the year. In 1948, new orders had been closely in line with sales, but late in that year incoming business began to decline more rapidly than sales (see table 6). The disparity widened during the first half of 1949. After mid-year the trend reversed and orders in the aggregate were equal to sales in the second half.

Among the durable-goods industries the improvement in the order-sales relationships during the second half of 1949 was sizable. For each of the industries in this group, except in the cases of general machinery and railroad equipment, new orders in the second half of 1949 were about in line with sales. However, as a result of the unfavorable first half backlogs on the average were reduced by one-fourth during 1949 and unfilled orders of durables amounted to 2½ months of sales at the end of the year as compared with 3 months in December 1948. The ratio of unfilled orders to sales remained somewhat higher than it was prior to the war.

In the nondurable-goods industries, the relative importance of unfilled orders is typically of much less significance, and fluctuations in the volume of sales followed movements in new orders closely throughout the year.

Agricultural Production and Income

FARM production in 1949 was again near the peak rate attained in the preceding year, but farm income moved downward primarily as a result of the effect upon prices of accumulating supplies and some decline in foreign demand. Agricultural prices, which had been consistently above parity with nonagricultural prices since 1942, averaged 100 percent of parity for the year 1949 and were 5 percent below parity in December on the revised basis for calculation recently adopted by the Department of Agriculture.

New farm legislation during the year provided higher support prices for "basic" commodities in 1950 than those previously scheduled to go into effect and changed the computation of parity in such a manner that many of the principal "non-basic" commodities now have higher parity prices.

Although stocks of agricultural commodities are not yet burdensome, production has been running in excess of consumption since the world food crisis of 2 years ago. A substantial proportion of this output has been acquired by the government as a means of supporting prices. As a part of the price support program, production controls were announced for all basic commodities by the year end.

The year 1949 thus represented the last of a series of years beginning in 1942 in which production with the major exception of tobacco was substantially free of governmental control measures. Farmers planted the largest crop acreage in 15 years and expanded livestock production for the first time since the war. With somewhat less favorable weather than in 1948, however, yields per acre and total crop production were lower than in 1948, but both were higher than in any other year.

Although few crops were of record size in 1949, output of most of the principal crops including cotton, corn, wheat, oats, and soybeans was well above average. Of this group, however, only cotton exceeded the harvest of a year earlier. A total of 16 million bales was ginned—the largest crop since 1937.

Shift in farm output

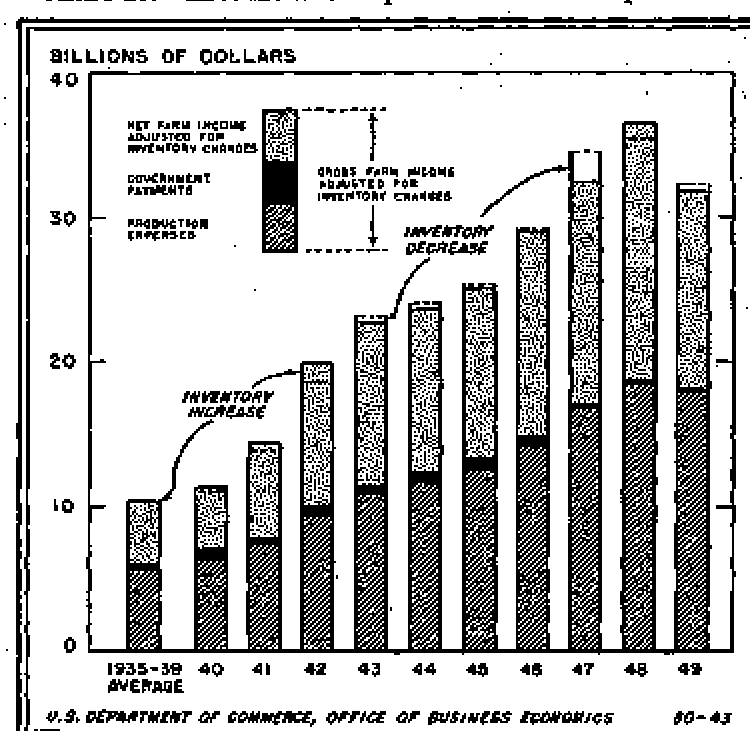
The composition of farm output in each of the past 2 years was very similar, but this pattern represents an important shift from that prevailing in the late war and early postwar period. Expanded crop production in 1948 and 1949 more than offset a reduction in livestock output from other recent years. Furthermore, the crop expansion was in nonfood products—chiefly cotton and feed grains—and some decline occurred in food crops. Thus, although total farm output has been at a record rate, food production has been moderately lower in the past 2 years than in the preceding 2- to 4-year period and this has been reflected in a moderate decline in food prices than in agricultural prices as a whole.

Nevertheless, the low point in food production was reached in 1948 and a gradual upswing in the output of meat, dairy products, and poultry and eggs occurred in 1949. Both the beef and pork output were a little higher thus bringing to an end the declining trend in meat supplies which had persisted since 1944. The rise in output of dairy products and eggs, however, was about absorbed by purchases for price support by the Commodity Credit Corporation as prices of these products weakened during the year.

Net income lower

Although little change occurred in the domestic demand for agricultural products, farm income declined substantially in 1949 from the peak reached in 1948. As indicated in the national income and product section, disposable income was a little higher in 1949 than in 1948 and consumer expenditures for food were only a little lower. Foreign demand for United States farm products was also less urgent as supplies abroad recovered further from the low point reached at the end of 1947. Despite the curtailment in shipment of farm products in the latter half of the year, the value of farm exports for 1949 was as great as in 1948 principally because of expanded shipments under the Economic Recovery program in the first 6 months of the year. As indicated below, perhaps the most important influence contributing to the decline in farm income was the continued accumulation of agricultural commodities, principally in the hands of the government.

Chart 10.—Income and Expenses of Farm Operators[1].



[1] Value of inventory changes include all crops and livestock whether held for sale or for use on the farm.

Source of data: U. S. Department of Agriculture, Bureau of Agricultural Economics.

Cash receipts from marketings, at $27.5 billion were about 10 percent below the record established in the preceding year. There was little decline in production expenses, however, and net income of farm proprietors registered a decline of nearly 25 percent (see chart 10). At about $14.1 billion, farm proprietors' incomes were lower in relation to total national income than during the war or in other postwar years but remained somewhat higher than the average proportion obtained during the years 1929–40. On a per capita

Table 7.—Index Numbers of Volume of Production for Sale and Home Consumption

[1935-39=100]

Commodity group	1940	1944	1945	1946	1947	1948	1949 [1]
Livestock and products:							
Meat animals	118	165	147	146	145	134	136
Dairy products	105	115	119	119	117	114	117
Poultry and eggs	112	166	170	160	157	158	163
All livestock	112	143	141	138	137	133	134
Crops:							
Food grains	110	148	155	164	187	190	185
Feed crops	114	163	144	172	131	206	182
Cotton (lint and seed)	95	94	68	66	93	117	128
Truck crops	112	137	142	158	141	144	144
Other vegetables	104	106	110	128	107	125	115
Tobacco	102	136	127	160	146	136	137
Fruits and tree nuts	110	123	113	133	120	127	155
Oil-bearing crops	171	270	291	277	300	363	327
Sugar crops	104	81	94	103	110	89	99
All crops	107	128	122	135	126	164	148
Food production	111	140	139	140	140	135	139
Non-food production	105	130	113	122	130	166	151
All commodities	110	137	134	137	136	139	139

[1] Production estimates are based on the December crop report and estimated marketings and home consumption of livestock and livestock products.

Source: U. S. Department of Agriculture, Bureau of Agricultural Economics.

or a per family basis, the comparison is more favorable for farmers during the recent period since farm population is now about 10 percent lower than the 1929–40 average, whereas nonfarm population is about 25 percent higher.

Price decline throughout 1949

Declining farm income in 1949 was principally the result of a continued weakening in farm prices. During the course of the year, farm prices declined 12 percent, which is about the same extent as that occurring during 1948 but the movement during the 2 years followed different patterns. Although the highest monthly average in 1948 was in January and the lowest in December, on a quarterly average basis prices rose both in the second and in the third quarter before dropping sharply in the final months of the year. In 1929, however, prices averaged lower in each succeeding quarter. Furthermore, the decline was general. Of 10 major commodity groups, only fruit and tobacco registered advances. The rise in fruit prices reversed a 2-year decline which had occurred in 1947 and 1948 and was the result of a sharp drop in output of citrus fruit. The rise in tobacco represented a mixed price situation in which declining prices prevailed for some of the principal types of tobacco. For 2 years reduced marketing quotas have curtailed tobacco output and a substantial portion of total production has been placed under government loan in order to support prices.

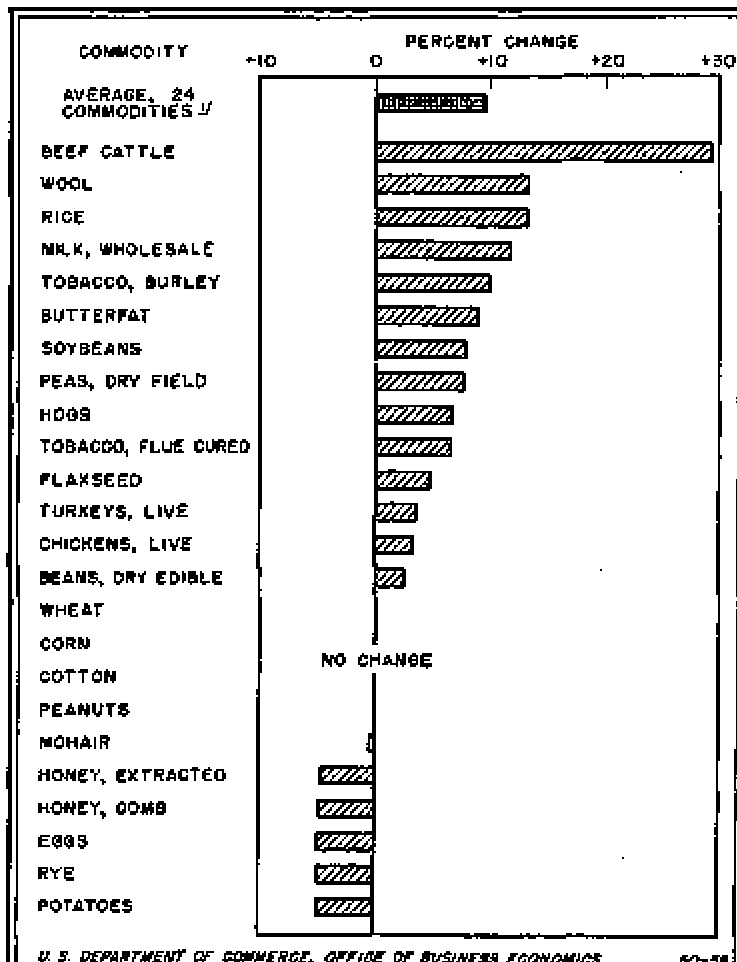
For the major livestock and products groups, the price decline reflected rising production. Among the crops, increased world supplies were important factors in price reductions for cotton, grains, and oilseeds.

The decline in farm prices and in farm income was moderated by the largest price-support expenditure made by the Government in any one calendar year. During the early part of the year, heavy expenditures were made to support the prices of crops grown in 1948 but not marketed before the turn of the year, whereas in the latter part of the year extensive purchases and loans were made for the 1949 crops. Although support was extended to a number of commodities in 1949 which did not require either loans or purchases in 1948, support expenditures on the current crop at the end of 1949 were running a little less than a year earlier primarily because of a reduction in the amount of cotton placed under loan.

Parity revised to include labor cost

The Agricultural Act of 1949 provides for higher support levels for "basic" commodities in 1950 than those contained in the previously existing law and includes wages paid to hired farm laborers in the computation of parity with the result that most "non-basic" commodities as well as two of the "basic" group now have higher parity prices.

Chart 11.—Percent Change in Parity Prices, Resulting From Revisions in the Method of Computation



[1] Average was weighted on the basis of cash receipts from farm marketings in 1948.

Source: Basic data, U. S. Department of Agriculture, Bureau of Agricultural Economics.

In addition to the changes in the formula for calculating the general parity level, individual parity prices were adjusted in accordance with price relationships existing during the most recent 10-year period, instead of maintaining the pattern existing in the base period, which is 1910–14 for most commodities. Any increases in parity which result from calculation on this revised basis will be fully effective in 1950, but any decreases in parity prices of the principal basic commodities are avoided by the use of an alternative calculation, as noted below, and decreases for other commodities are limited to 5 percent.

For the basic commodities, support prices will be based upon the higher of (1) the old method of calculating parity and (2) the new formula. The revised parity calculations of the Department of Agriculture show that the old formula is higher for 4 of the 6 basic commodities—wheat, corn, cotton, and peanuts. For the other two "basics"—rice and tobacco—the new formula provides higher parity prices. The new formula is also to be used in computing parity prices for all the nonbasic commodities.

The net effect of the revision in parity calculations for 1950 is an increase of about 9 percent in average parity prices, weighted on the basis of cash receipts. As shown in chart 11, substantial increases in parity occur for livestock and most principal livestock products except eggs. On the other hand, there is no change in parity for the big crops—cotton, corn, and wheat and the weighted average rise for all crops is only 1 percent.

In contrast to the specific mandatory support levels provided for basics, the nonbasic commodities have a range within which support is provided, either on a mandatory or a permissive basis. Dairy products must be supported at from 75 to 90 percent of parity with the provision that the support level should assure an adequate supply. The other commodities in this "designated" group for which supports are mandatory—wool, mohair, tung nuts, honey, and potatoes—are to be supported at from 60 to 90 percent of parity. However, there is a special provision that the support price of wool is to be established at a level that will encourage production at a rate of 360 million pounds of shorn wool per year, which is about two-thirds higher than the current rate of output obtained with a support level of about 95 percent.

Support levels not fixed

For the remaining nonbasic products, support is permissive rather than mandatory at not more than 90 percent of parity. Price support may exceed 90 percent of parity for any agricultural product, however, if the Secretary of Agriculture determines after a public hearing that such a level is necessary to prevent or alleviate a shortage of an essential commodity or to stimulate production of a commodity in the interest of national security.

The Agricultural Act of 1949 also contains a forward pricing provision, directing the Secretary of Agriculture to announce the support price level for field crops in advance of the planting season and for other commodities before the the start of the marketing year or season. Although forward price support levels announced may later be increased, they are not to be reduced, even though actual parity prices, when determined, are lower than the announced forward prices.

The law also authorizes loans to cooperatives for the erection of storage facilities and places restrictions on the sale of commodities by the Commodity Credit Corporation, but these restrictions have important exceptions. Foods in danger of deterioration may be (1) exchanged for commodities not produced in the United States, or (2) given to public welfare programs, including school lunches or to private welfare organizations for distribution at home and abroad. This provision for disposition of perishable commodities will ease the problem created by the rise in price-support purchase of these foods in recent months.

The year 1949 was one of transition in American agriculture from the former period in which attention had been focused upon expanding output to fill world-wide demands to a period in which emphasis has shifted to price-support operations and the attendant production controls. This shift was reflected in the farm legislation during the year which revised the method of calculating parity, extended wartime price supports with some changes, and designated more specific criteria to be used in curtailing production.

Construction Activity

A MAJOR element of strength in the economy in 1949 was the rise in public works and residential construction. As a result of the substantial expansion in public construction, aided during the latter months of the year by the sharp recovery in residential housing, the total value of all construction put in place reached a new high of $19.3 [1] billion in 1949, one-half billion dollars over 1948. Additional expenditures by public authorities of more than $1 billion offset a contraction in the private sector of approximately one-half billion dollars.

Housing, after a moderate decline during the first 4 months of 1949, picked up in the late spring and reached a record level in the fourth quarter. The value of residential construction for the year as a whole was slightly below 1948, partly because of the low volume of starts in the closing months of the earlier year. However, its upsurge after April was sufficient to bring total private construction close to its postwar high in the fourth quarter of 1949, despite the continued downdrift in private nonresidential construction.

Average construction costs declined only slightly from 1948 to 1949, implying that the increase in the physical volume of construction was slightly more than that indicated by the dollar expenditures. The price average for all building materials declined about 3 percent in 1949, due chiefly to noticeable declines in lumber prices. The monthly average of most of the remaining building materials prices showed increases over 1948.

[1] This differs from the new construction total shown in the private domestic investment component of the gross national product in that the $19.3 billion includes expenditures on public construction but excludes oil well drilling activity and other items discussed in the July 1949 Survey of Current Business, p. 7.

At the year end, construction activity was substantially above the year as a whole, on a seasonally adjusted basis, and for some segments, particularly residential construction, commitments for construction presaged high activity for some months to come. Private work, because of the contra-seasonal increases in residential building, was progressing at a relatively faster rate than public construction. During the last quarter most building materials prices, including lumber, were already above their low points for the year, reversing the pattern of slow declines during earlier months.

Public construction up in 1949

Public expenditures for construction amounted to about $5.3 billion or 25 percent more than in 1948. The largest increase, dollar-wise, was reported in public nonresidential building. Highway expenditures were still the largest item of public construction expenditures although the 5 percent increase in 1949 was considerably less than the relative increase in 1948 over 1947.

Public housing, as indicated in table 8, almost tripled in 1949, but comprised only about 3 percent of total housing expenditures. All of these expenditures were under non-Federal programs which will continue to expand during 1950 as the Public Housing Act of 1949 is implemented.

Private construction trends mixed

In the private sector, the pattern for 1949 was rather mixed but the over-all total declined. The industrial com-

Table 8.—New Construction Activity, 1948–49 [1]

[Millions of dollars]

Item	1948	1949	Seasonally adjusted at annual rates			
			1948		1949	
			First half	Second half	First half	Second half
Total new construction	18,775	19,320	17,988	19,502	18,548	20,110
Total private	14,464	14,059	14,240	14,686	13,496	14,620
Residential	7,223	7,026	7,170	7,270	6,358	7,692
Nonresidential	3,078	3,179	3,406	3,000	3,354	3,002
Industrial	1,397	974	1,400	1,328	1,138	810
Warehouses, offices and loft buildings	325	294	294	352	320	268
Stores, restaurants, garages	901	707	894	908	732	683
Other nonresidential buildings	957	1,203	812	1,102	1,164	1,242
Farm construction	500	450	506	494	398	502
Public utility	3,262	3,406	3,092	3,432	3,388	3,424
Total public	4,313	5,270	3,748	4,876	5,054	5,490
Residential [2]	35	213	35	64	144	283
Nonresidential	1,057	1,365	886	1,229	1,642	1,088
Military and naval [2]	137	120	144	130	98	142
Sewer and water	481	570	418	544	572	568
Highway	1,586	1,670	1,448	1,722	1,622	1,718
Other public	867	1,030	766	968	972	1,085

[1] Excludes oil well drilling activity and certain other adjustments to gross national product level.
[2] Not seasonally adjusted.

Source: U. S. Department of Commerce, Office of Domestic Commerce.

ponent continued the decline apparent in 1948, dropping more than 10 percent.

Expenditures by the utilities continued to rise because the gas and electric companies, which had not yet completed their postwar expansions, increased their expenditures by about one-sixth over 1948 to $2.4 billion. Expenditures for railroad construction increased only moderately after the big expansion recorded in 1948, while telephone and telegraph companies decreased their expenditures about 20 percent.

Construction of stores, restaurants, and garages showed some increase in the last quarter after declining from the first through the third quarter of the year. It is not unlikely that a strong demand for such service establishments will continue as a result of the recent trend of residential construction and the new subdivisions which have been developed.

Warehouse, office, and loft buildings also showed a slight improvement in the last quarter after having declined steadily during the first nine months of 1949, resulting in the yearly total about 9 percent below the total for 1948.

The backlog of demand for institutional services resulted in substantially higher institutional construction in 1949 compared with 1948, but with a diminished annual rate of increase. Religious edifice construction showed the largest relative increase in this category.

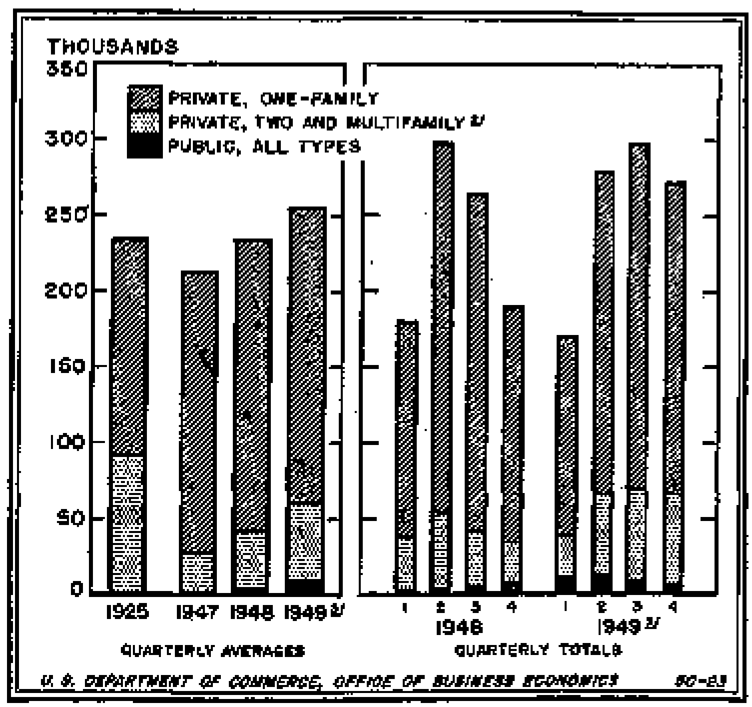
Residential construction up sharply at year end

The recovery in new residential construction activity from the low point recorded in April, after allowing for seasonal influences, was the most impressive development in construction activity during 1949. This rise beginning in the spring was made possible by the large backlogs of the war period, but the activation of this demand in its 1949 resurgence was influenced by: (1) some reduction from the peak in the unit costs of new houses, (2) easier financing terms, and (3) diminished expectations by prospective buyers that postponement of purchases would bring savings from further price reductions, a factor in the decline of sales during the early part of the year. Total dwelling units placed under construction in 1949, estimated at over 1 million, as indicated in chart 12, were well over the number started in 1948 and also above the total for the previous record year, 1925, when 937,000 were started. Private starts alone in 1949, about 984,000, exceeded the previous record which included no public activity.

However, 35,500 publicly financed starts in 1949 were almost double the 1948 total and will continue to increase as Federal activity approaches the statutory limit of 135,000 starts per year. If conditions warrant such action, this limit could be increased to 200,000 units by Presidential authorization.

An important change from 1948 to 1949 in the pattern of privately financed starts, indicated in chart 12, is the increase in the number of multi- and two-family units as well as the proportion it represents of the total, moving from 16 percent in 1948 to 20 percent in 1949. This proportion, however, is still considerably short of the figure in 1925 when approximately 40 percent were of this type.

Chart 12.—Permanent Nonfarm Dwelling Units Started, by Type and Financing [1]



[1] Data represent dwelling units privately and publicly financed and include prefabricated housing units. Figures exclude temporary units, conversions, dormitory accommodations, trailers, and military barracks.
[2] Data include units in 1- and 2-family structures with stores and units in multifamily structures with stores.
[3] Data for total dwelling units started for the fourth quarter of 1949 are preliminary; components are estimated.

Sources of data: U. S. Department of Labor, Bureau of Labor Statistics, except components for fourth quarter of 1949, which were estimated by the U. S. Department of Commerce, Office of Business Economics.

The rise in rental type housing from 1948 to 1949 was undoubtedly aided by the liberal use made of Section 608 of Title VI of the National Housing Act by the construction industry during the past year.

In contrast, the number of single-family units while increasing over last year constituted a smaller proportion of the total. It is interesting to note that while the number of these units increased in 1948 over the 1947 total, the increase in that year occurred in spite of rising costs and the erection of a substantial number of expensive units. The decline in starts toward the end of 1948 probably reflected the diminished demand for houses with the high costs and financial difficulties then prevalent.

This condition appears to have been adjusted during 1949 with a larger proportion of smaller and less expensive units developed by the industry. This, coupled with easier financing made possible by continued operations of the Federal National Mortgage Association as a secondary mortgage market, facilitated by the recent liberalization of the Act and additional authorization of funds aided in tapping a broadened base of demand in lower income brackets.

In addition to the specific aids achieved by legislation, the general policies of the Treasury and Board of Governors of the Federal Reserve System have aided in retaining a low rate of interest and supply of available funds. Further, there also seemed to be a greater flow of private funds into the mortgage market as the result of somewhat less attractive alternative forms of investment. These factors in combination appear to have created less restrictive policies by mortgage companies both with respect to interest rates and other terms of financing than prevailed during most of 1948.

Domestic Business Investment

A DROP of $10 billion in gross private domestic investment was the largest change among the major components of the national product from 1948 to 1949. As pointed out in an earlier section, the principal part of the reduction in gross private domestic investment represented a shift from accumulation of inventories to disinvestment, and practically all of the remainder reflected lower outlays by nonfarm business for plant and equipment.

The portion of the decline in total output resulting from inventory changes was very substantial. However, it should not be overlooked that inventory liquidation in 1949 was small, and that in the main it was the elimination of the appreciable accumulation characterizing 1948 which accounted for the depressing influence of this component of investment. But since inventories generally were not excessive early in 1949, liquidation was checked by the firm demand for final products earlier discussed.

Plant and Equipment Expenditures

Nonagricultural business firms spent $17.9 billion for new plant and equipment during 1949, a decline of 7 percent from the $19.2 billion in 1948.[1] The year 1949 marked the first downward movement in annual capital acquisitions since the end of the war (see chart 13). However, outlays for fixed assets were higher than in any year prior to 1948 both in dollar terms and physical volume. Plant and equipment costs, which had reached their highest point early in 1949, declined somewhat during the year and average prices for 1949 approximated the 1948 level.

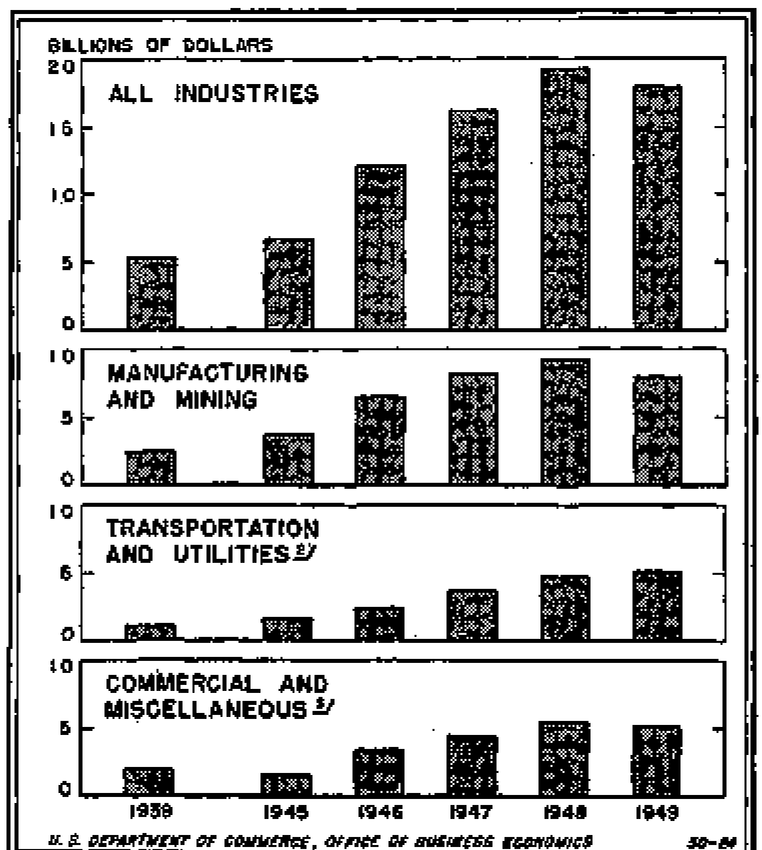
It is interesting to note that the investment programs reported by business at the beginning of 1949 were, as a whole, carried out during the course of the year. Anticipated outlays were only slightly higher—about 1 percent in total—than actual expenditures for new capital facilities.

Quarterly trends

The high point of outlays for plant and equipment was reached in the second half of 1948. After rough allowance for seasonal factors, total outlays during the first quarter of 1949 slipped slightly below the previous quarter. During subsequent quarterly periods this downward tendency was somewhat accelerated. The decline in the investment rate during 1949 and the consistent year-to-year gains which had previously characterized capital outlays are shown in table 9.

New investment during the early months of 1949 was bolstered by the substantial increases made by railroads and electric and gas utilities. During the remainder of the year all major industries except electric and gas utilities showed year-to-year declines. Even the increases shown by the utilities during the latter half of the year were moderate when compared to previous gains.

Chart 13.—Business Expenditures for New Plant and Equipment[1]



[1] Exclude expenditures of agricultural business and outlays charged to current account. Data for 1949 include preliminary expenditures for the fourth quarter.
[2] Include railroads, other transportation, and electric and gas utilities.
[3] Include trade, service, communications, construction, and finance.

Sources: Data for 1945–49, U. S. Department of Commerce, Office of Business Economics and Securities and Exchange Commission; data for 1939, Board of Governors of the Federal Reserve System.

Table 9.—Year-to-Year Percentage Change in New Plant and Equipment Expenditures

Industry	1945 to 1946	1946 to 1947	1947 to 1948	1948 to 1949	1948–1949 First half	1948–1949 Second half
All industries	+82	+34	+19	−7	+1	−14
Manufacturing	+84	+29	+12	−14	−5	−23
Mining	+27	+28	+16	−9	0	−17
Railroads	+4	+60	+43	+2	+26	−18
Other transportation	+105	+21	−12	−28	−25	−30
Electric and gas utilities	+65	+63	+41	+18	+27	+11
Commercial and miscellaneous	+122	+34	+22	−6	−2	−11

Source: U. S. Department of Commerce, Office of Business Economics.

[1] These expenditures make no allowance for outlays charged by business to current account. The fourth quarter of 1949 is preliminary.

Industrial trends

Expenditures for new plant and equipment by the combined manufacturing and mining industries were $7.9 billion in 1949 as compared with $9.1 billion in the preceding year with both plant and equipment expenditures declining. The plant segment, however, bore the brunt of the cut-back as industrial construction activity fell approximately 30 percent below 1948.

Within manufacturing, most of the major industries considerably reduced their rate of investment during 1949. It is worthy of note that from 1948 to 1949 there was a fairly close correspondence between the changes in profits and sales of the different industries and the changes in capital investment. This was also true in terms of size of firm with both profits and capital outlays declining relatively more among the small firms than among large ones.

Table 10.—Business Expenditures on New Plant and Equipment, 1945-49[1]

[Millions of dollars]

Industry	1945	1946	1947	1948 January-March	1948 April-June	1948 July-September	1948 October-December	1948 Total	1949 January-March	1949 April-June	1949 July-September	1949 October-December[2]	1949 Total[3]
All industries	6,630	12,040	16,180	4,170	4,880	4,830	5,410	19,230	4,460	4,690	4,360	4,430	17,910
Manufacturing	3,210	5,910	7,460	1,800	2,140	2,080	2,320	8,340	1,850	1,880	1,690	1,710	7,130
Mining	440	560	690	180	200	200	220	800	190	190	190	170	730
Railroad	550	570	910	270	310	320	410	1,320	350	350	310	290	1,340
Other transportation	320	660	800	180	190	170	170	700	130	140	130	110	510
Electric and gas utilities	630	1,040	1,900	500	640	690	850	2,680	680	790	790	900	3,160
Commercial and miscellaneous[4]	1,480	3,300	4,430	1,240	1,340	1,360	1,440	5,380	1,260	1,290	1,260	1,250	5,040

[1] Data represent expenditures of nonagricultural business only and exclude outlays charged to current account.
[2] Based on anticipated capital expenditures of business in October and November.
[3] Annual estimates include anticipations for the last quarter of the year.
[4] Includes trade, service, finance, construction and communication.

Source: U. S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.

The rubber, paper, apparel, and lumber products industries were among the manufacturing groups showing the largest percentage declines in plant and equipment expenditures, as well as in sales and profits. On the other hand, capital outlays, sales and profits in food and transportation equipment (excluding autos) were close to their 1948 levels. A notable exception was the automobile industry where capital outlays did not rise in spite of a sizeable increase in operations. This was due both to the considerably smaller capital outlays arising from the 1950 model change-over than from the 1949 model change-over, and to a decline in outlays for plant. In addition, capital expenditures as reported by this industry generally do not include a substantial amount of expenditures on special tools which are charged to current account and which are closely related to the volume of output.

Since the correspondence between investment and operating experience was not so evident in the earlier postwar years, there is some indication that 1949 marks a return to a more normal relationship between investment and current operations, reflecting the completion of a large part of the immediate postwar expansion programs of business. However, analysis based on the long-term growth in producers' equipment outlays suggests that some upward pressure of wartime deferred demand was still being exerted in 1949.[2]

Plant and equipment expenditures by the petroleum industry declined moderately in 1949. The largest relative reduction was in outlays for refining facilities—while investment in pipe lines and oil- and gas-well drilling was little changed. In the transportation equipment group, investment was supported by a sharp increase in plant and equipment outlays by the aircraft industry. Despite reductions in over-all outlays by the electrical machinery industry, expenditures for television production facilities continued at a very high rate during 1949.

Capital outlays by railroads, which increased slightly from 1948 to 1949, reached a turning point at the middle of the year. During the second half of 1949, expenditures declined abruptly and were approximately one-fifth lower than the corresponding period of 1948.

Investment of electric and gas utilities reached a record total of $3.2 billion in 1949, an advance of 18 percent over 1948. Both electric and gas utilities shared in this increase. In the gas utility industry, the substantial postwar outlays were due, in the main, to the expansion of pipe-line facilities from the Texas fields, arising out of the significant shift to natural gas consumption.

Examination of investment plans by business for the first quarter of 1950 gives some evidence of a deceleration of the downward trend in the rate of investment.[3] This may be a reflection of the upturn in business expectations which occurred in the latter months of the year. However, the year-end level was well below that of the preceding year.

Inventories

The book value of inventories held by nonfarm business reached a postwar high early in 1949, and from then to the end of the year moved steadily downward. The value of business inventories was reduced by $5.1 billion over the year. Most of this decline was due to price changes, but physical volume also was lower.

The most important part of business inventories is held by manufacturing and trade firms, whose stocks of goods on hand had a year-end book value of $53.5 billion (see table 11). Inventories of these companies were reduced by $4.7 billion in 1949 under the effects of declining replacement costs and reductions in physical quantities of goods in stock. Lower prices were the major factor in this decline. In addition, following the slowing of sales in the early fall of 1948, inventory policy turned to physical liquidation rather than to accumulation.

Table 11.—Book Value of Business Inventories, End of Period, 1948 and 1949

[Unadjusted, billions of dollars]

Item	1948 First Half	1948 Second Half	1949 First Half	1949 Second Half
Total	54.8	58.2	55.4	53.5
Manufacturing	32.0	34.3	32.9	31.0
Wholesale trade	8.8	9.6	8.8	9.2
Retail trade	13.9	14.4	13.7	13.3

Source: U. S. Department of Commerce, Office of Business Economics.

[2] See "The Demand for Producers' Durable Equipment" SURVEY June, 1949.
[3] A detailed analysis of prospective investment trends in 1950, based on the annual survey of Capital Budgets, will soon be available.

Inventory movements during 1949 showed differences in timing and magnitude in the various sectors. Retailers and wholesalers were the first to adjust their inventories to the shift in business in the fall of 1948. For these groups, inventory book values reached their peak late in 1948, and then declined through the first half of 1949. During the first 3 months of the year lower prices accounted for all of the drop, and there was practically no change in volume of inventories. In the second quarter, liquidation became important.

Book values of trade inventories reversed their trend in mid-summer and rose in the third quarter. In the last 3 months of the year wholesalers' inventories changed relatively little while those of retailers declined, mainly because of reductions in the stocks of automobile dealers.

Retailers' stocks at the end of the year were $13.3 billion, about $1 billion below a year ago. Wholesale inventories were down $400 million over the year to $9.2 billion.

Major decline in manufacturing

The book value of manufacturers' inventories reached its post-war high in the middle of the first quarter of 1949. Thereafter book values moved down through most of the year. The period of the most sizable decline was the third quarter, when liquidation was heaviest. In the final months of the year declines were small as increases in inventories of the nondurable goods industries almost offset the continued declines in the durable goods group. The reduction over the year totaled $3.2 billion, and brought year-end book values to $31.0 billion.

From table 12, it is apparent that the changes in manufacturing inventories were dominated by the movements of durable-goods inventories. Here the decline in book values over the year amounted to $2.4 billion, compared with a drop of $900 million in the nondurable industries. The extent of the reduction in durable goods inventories reflects in part the year-end tightness in steel supply. However, there are indications that at the beginning of 1949 inventory holdings were somewhat out of line with sales, so that some downward adjustment was called for.

Finished-goods inventories of the "heavy goods" industries continued to increase well into the second quarter of the year. In large measure this increase represented involuntary rather than planned accumulations. During the second half of 1949, however, these stocks were substantially reduced.

The nondurable-goods industries reduced the book value of their inventories during the first 3 quarters of the year but increased them during the last 3 months. Finished-goods inventories of these industries, which had risen rapidly in 1948, declined throughout most of the year, but increased in the final quarter.

Table 12.—Change in Book Value of Manufacturers' Inventories, 1948 and 1949

[Unadjusted, millions of dollars]

Period	Durable goods		Nondurable goods	
	Total inventories	Finished goods	Total inventories	Finished goods
1948:				
First quarter	446	229	409	195
Second quarter	459	132	663	544
Third quarter	444	83	701	621
Fourth quarter	600	390	422	316
1949:				
First quarter	490	481	−388	−42
Second quarter	−880	69	−582	−116
Third quarter	−1,473	−561	−446	−152
Fourth quarter	−458	−1	519	347

Source: U. S. Department of Commerce, Office of Business Economics.

Inventories in the hands of manufacturing and trade firms at the end of the year generally did not appear high in relation to sales when judged by prewar standards. The tendency for liquidation to taper off at the end of 1949 appears to be in line with this inference.

In addition, there was an important difference between the situations at the beginning and end of 1949. At the start of the year, continued accumulation at a substantial rate would have been needed to avoid the deflationary effect of a decline in inventory investment. At the close, maintenance of the size of stocks would imply no reduction in investment and hence would have no retarding influence on total output.

Retail Sales

CONSUMER demand in the aggregate remained firm in 1949, providing a source of economic strength in a year of declining investment. Although the dollar value of retail-store sales dipped slightly, month-to-month movements were marked by unusual stability, and the difference between the highest month—September—and the lowest—December—was only about 3 percent.[1]

Nevertheless, within the retail sector, many groups contributed to and were affected by the business downturn, particularly in the early part of 1949. Also, this was the first year since 1938 in which retail-store sales failed to advance over the previous year. Purchases in retail establishments, at $128 billion, trailed 1948 by about 1½ percent (see table 13). In view of the decline in prices, however, the physical volume of goods moving through retail channels in 1949 was, roughly, equal to the 1948 total.

Automotive sales sustain total

The unprecedented number of passenger cars sold in 1949, which permitted motor vehicle dealers to record an 18-percent increase in dollar sales for the year, contributed materially to the strength of consumer buying. Sales of retail stores other than motor vehicle dealers were 5 percent below 1948.

[1] The trend of services is not discussed in this section, though they constitute, of course, a substantial part of consumer expenditures.

Analysis indicates that in 1949 there remained a substantial backlog of demand for autos, and output was large enough to bring dollar sales above the level which would correspond, on the basis of prewar relationships, to current disposable income.[2] However, other major kinds of retail business generally did not appear to be high in relation to income when judged by historical standards. The one exception—food—was in line with prewar behavior in real or quantity terms, but high in terms of dollar sales.

Food sales firm

Among the nondurable-goods groups, the greatest strength was shown by food stores and filling stations with sales practically unchanged from a year ago. With prices down moderately, there may have been a small increase in the physical volume of food sold at retail. Food stores account for about a third of all nondurable-goods sales and their high activity has helped to prop up the sales total for the nondurable-goods groups.

The remaining groups of nondurable-goods stores reported fairly substantial decreases in sales. At both men's wear and women's wear stores, dollar sales were down about 8 percent from the previous year. However, part of these drops—particularly in women's apparel—reflected the avail-

[2] See "Trend of Sales of Consumer Durable Goods", SURVEY, April 1949.

Table 13.—Sales of Retail Stores by Kinds of Business, 1947–49
[Millions of dollars]

Kind of business	1947	1948	1949
All retail stores	118,906	130,042	128,183
Durable-goods stores	32,142	38,008	38,874
Automotive group	15,528	19,399	22,728
Motor-vehicle dealers	13,850	17,620	21,085
Parts and accessories	1,678	1,779	1,643
Building-materials and hardware group	9,092	10,710	9,509
Building materials	5,595	6,801	6,020
Farm implements	1,180	1,555	1,401
Hardware	2,317	2,354	2,088
Home-furnishings group	6,213	6,725	6,537
Furniture and housefurnishings	3,746	4,045	3,744
Household appliances and radios	2,467	2,680	2,793
Jewelry	1,309	1,264	1,100
Nondurable-goods stores	86,764	92,034	89,309
Apparel group	9,413	9,865	9,175
Men's clothing and furnishings	2,414	2,412	2,228
Women's apparel and accessories	4,141	4,530	4,190
Family and other apparel	1,325	1,396	1,281
Shoes	1,533	1,527	1,476
Drug stores	3,609	3,687	3,605
Eating and drinking places	12,035	12,112	11,240
Food group	28,784	30,506	30,296
Grocery and combination	22,704	24,111	24,164
Other food	6,080	6,395	6,144
Filling stations	6,108	6,824	6,363
General-merchandise group	16,033	17,014	16,019
Department, including mail order	10,645	11,337	10,618
General, including general merchandise with food	1,853	1,939	1,709
Dry goods and other general merchandise	1,638	1,609	1,509
Variety	1,902	2,131	2,183
Other retail stores	12,049	12,524	11,609
Liquor	1,916	1,854	1,760
All other	10,133	10,670	9,849

Source: U. S. Department of Commerce, Office of Business Economics.

ability of goods of equal or higher quality at lower prices than in 1948, and trading down may also have been important. At shoe stores, where prices were more stable, the 1949 decline in sales was about 4 percent. Drug-store sales were down 2 percent, and department stores 6 percent.

Data on tax collections indicate that sales of luxury goods continued the downward slide evidenced in 1948. Excise taxes on furs fell about 28 percent, on cabaret expenditures 14 percent, and on jewelry 10 percent. In addition, an examination of department-store sales by departments points to greater decreases in sales in those departments in which higher-priced merchandise is carried. The same tendency is shown by the fact that sales in basement stores, which generally display lower-priced items, were down only 3 percent for the year while for the main store the corresponding figure was 7 percent.

Most durables decline

Although the durable-goods group as a whole showed an increase in sales because of the large gains of motor vehicle dealers, declines were registered by most stores whose major lines of trade consist of consumers' durable goods other than autos. In the home-furnishings group, trade was bolstered by increased purchases of television receivers and some major household appliances, and by strengthening in demand for furniture and furnishings in the latter part of the year, but dollar sales declined by about 3 percent in 1949. In building materials and hardware and in jewelry stores the drop in the dollar value of sales was substantially larger. As in the case of the nondurables these declines reflected in part decreased prices and the greater availability of lower price lines.

Improvement in fourth quarter

In most of the store groups the downward drift in sales continued through the first 7 or 8 months of the year, with some signs of recovery evident subsequently. The home-furnishings group showed a substantial pick-up as price reductions in television sets and electrical appliances helped to stimulate demand for these items, while the high level of residential construction contributed to higher activity in furniture and house furnishings.

Some of the increased sales strength in the second half of the year may be traced to the influence of easier credit terms. Total installment sales credit for the year was up more than a third, with auto and home-furnishing stores showing the greatest increases. For these groups installment sales credit at the year end had risen 60 and 25 percent respectively.

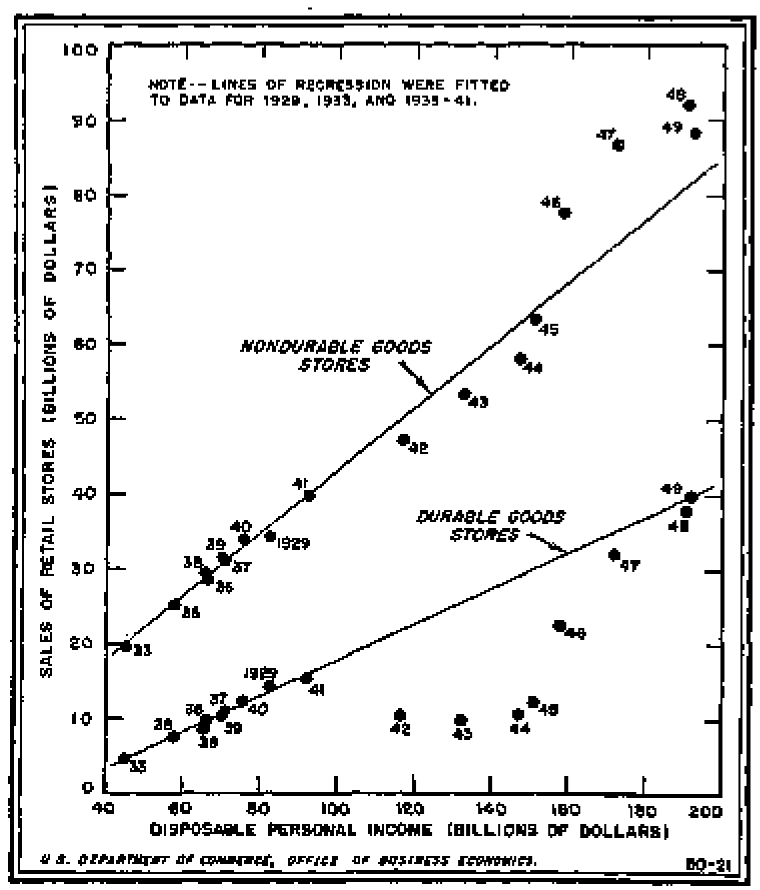
The renewed impetus in buying evident late in the third quarter in many lines of trade was offset, however, by a drop in automobile sales. The decline in this group was primarily the result of the preparations for model change-overs which, together with some tightness in steel supplies, accounted for a reduction in the number of cars produced in the final months of the year.

Retail trade patterns change

To appraise the current position of retail store sales, several bases of comparison with prewar conditions have proved useful. These include correlation and percentage relations between retail sales and income, and percentage distributions of retail sales by kinds of business. These measures are consistent in their summary of the year 1949, in relation to the change from 1948.

Sales in 1949 declined relative to income, the drop coming at the start of the year and bringing total sales closer in line with the relationship characteristic of the years before the war. The downward movement reversed a trend which had begun immediately following the war's end and had

Chart 14.—Relationship Between Sales of Durable and Nondurable Goods Retail Stores and Disposable Personal Income



Source of data: U. S. Department of Commerce, Office of Business Economics.

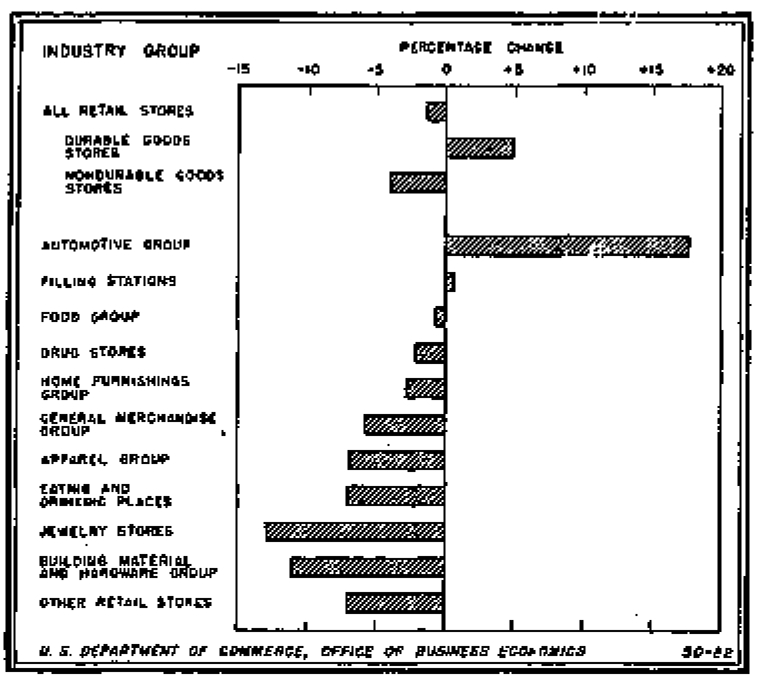
continued until the middle of 1948. During the early postwar surge in buying, sales of retail stores were higher than might have been expected on the basis of the prewar relationship between sales and income.

Chart 14 shows how sales of durable- and nondurable-goods stores have moved relative to disposable personal income since 1929. Both cases reveal a divergence from the prewar pattern during the war and early postwar years, and a recent tendency to revert to the historical relationship.

For the nondurables as a whole (upper curve) sales declined relative to income during 1949. The downward movement in the nondurables began about the middle of 1948 and has become more sharply defined in the past year.

Sales at durable-goods stores, on the other hand, have continued their upward trend relative to income which began in 1945, although the gains have been getting smaller. The 1949 increase carried durable sales by the second half of the year to a point a little above the value indicated by the prewar relation with income.

Chart 15.—Percentage Change in Sales of Retail Stores, 1948 to 1949, by Kinds of Business



Source of data: U. S. Department of Commerce, Office of Business Economics.

Autos take larger share of income

Although the proportion of disposable personal income spent at retail stores has declined somewhat in the past 2 years, it remains higher than before the war. In such years as 1929 and 1939 or 1941, about 60 percent of disposable income was expended in retail establishments, whereas in 1949 retail sales amounted to two-thirds of such income.

A good deal of the extra spending went for autos, and sales of motor vehicle dealers represented a higher percentage of income than in any earlier year. At other durable-goods stores, the proportions of disposable income expended were generally close to the values that characterized the years 1929 and 1941.

The proportion of income going to retail stores in the nondurable categories has moved downward in the last few years. For most groups the ratios are now little different from those typical of the prewar years of high activity.

Increasing importance of durables

The pattern of retail activity may also be analyzed in terms of the relative importance of the different groups of stores in the retail structure. Table 14 gives the shares of the retail dollar spent at each type of store in selected years.

Table 14.—Percent Distribution of Retail Sales by Kinds of Business

Kind of business	1929	1933	1939	1941	1948 First half	1948 Second half	1949 First half	1949 Second half
Durable-goods stores	29.3	19.8	24.7	29.1	28.7	29.7	30.4	31.8
Automotive group	14.5	9.7	13.2	15.4	14.2	16.4	17.1	18.4
Motor-vehicle dealers	13.3	8.7	12.0	14.0	12.8	14.1	15.8	17.1
Parts and accessories	1.2	.9	1.2	1.4	1.4	1.4	1.3	1.3
Building materials and hardware group	7.9	5.5	6.5	7.0	8.3	8.2	7.4	7.4
Building materials	5.4	3.5	4.2	4.4	5.3	5.2	4.8	4.8
Farm implements	1.1	.7	.8	.9	1.2	1.2	1.2	1.0
Hardware	1.5	1.3	1.5	1.8	1.8	1.8	1.7	1.6
Home-furnishings group	5.7	3.9	4.1	4.7	5.2	5.1	4.9	5.3
Furniture and house-furnishings	3.7	2.4	2.0	2.2	3.2	3.1	2.9	2.9
Household appliances and radios	1.9	1.5	1.3	1.5	2.1	2.1	2.0	2.3
Jewelry	1.1	.7	.9	1.1	1.0	.9	.9	.8
Nondurable-goods stores	70.7	80.2	75.3	71.0	71.3	70.3	69.6	68.2
Apparel group	9.8	7.0	7.8	7.6	7.6	7.0	7.5	6.8
Men's clothing and furnishings	2.8	2.2	2.0	2.0	1.9	1.8	1.9	1.6
Women's apparel and accessories	3.1	3.1	3.1	3.0	3.4	3.5	3.4	3.1
Family and other apparel	1.2	.9	1.1	1.1	1.1	1.1	1.0	1.0
Shoes	1.7	1.7	1.6	1.4	1.2	1.2	1.2	1.1
Drug stores	3.5	4.3	3.7	3.3	2.9	2.8	2.9	2.8
Eating and drinking places	4.4	5.8	8.4	8.0	9.4	9.2	8.9	8.6
Food group	23.0	27.6	24.2	22.7	23.0	23.3	23.7	23.6
Grocery and combination	16.2	20.4	18.4	17.3	18.7	18.4	18.9	18.8
Other food	7.5	7.2	5.8	5.4	4.0	4.0	4.8	4.8
Filling stations	3.7	6.3	6.7	6.2	4.9	4.8	4.9	5.0
General-merchandise group	18.6	20.3	15.4	14.3	13.0	13.2	12.6	12.4
Department (excluding mail order)	8.1	9.5	8.4	7.0	7.7	7.8	7.4	7.4
Mail order	.9	.9	1.1	1.1	1.0	1.0	.9	.9
General, including general merchandise with food	5.0	4.8	2.2	1.8	1.6	1.6	1.4	1.3
Dry goods and other general merchandise	2.2	2.4	1.4	1.3	1.2	1.2	1.2	1.1
Variety	1.9	2.8	2.3	2.1	1.9	1.7	1.7	1.9
Other retail stores	9.2	8.0	9.2	9.3	9.8	9.4	9.1	9.0
Liquor		.1	1.4	1.4	1.4	1.4	1.4	1.4
All other	9.2	7.9	7.8	7.9	8.4	8.0	7.7	7.7

Source: U. S. Department of Commerce, Office of Business Economics.

During the past year the percentage of retail store sales going to durable-goods stores was the highest on record. This was due entirely to motor vehicle dealers, the group increasing its share of the total business at the expense of such lines as building materials and hardware, apparel, eating and drinking places and department and other general-merchandise stores. It may be noted that because of the exceptional demand for autos, the proportions of total retail sales at the various types of stores in 1949 were still appreciably different from the typical pattern of prewar years of high activity. As previously pointed out, however, these results do not imply that the groups other than autos were generally out of line with their historical relationships to income.

Foreign Trade

UNITED STATES foreign-traders during 1949 felt the impact of intensified foreign balance of payments difficulties which arose from the swifter pace of postwar readjustments in the United States than abroad. Largely because of the widespread dislocations caused by the war, these difficulties in foreign countries persisted despite the large flow of aid funds made in the form of grants and otherwise by the United States to facilitate economic rehabilitation abroad. It is, of course, only through these programs that foreign countries have procured an unprecedented volume of peacetime goods in United States markets. In 1949, United States foreign aid programs financed 30 percent of the total exports of goods and services, making possible the continuation of the large disparity between exports and imports.

In domestic markets, supplies of most goods became adequate as production came into a more balanced relationship with demand, with a resultant downward movement of prices. In most foreign countries, the same development toward easing of supplies, though already apparent during 1949, was as yet far less advanced than in the United States where wartime dislocations and accompanying inflation were relatively far less acute and hence overcome with less of a time lag.

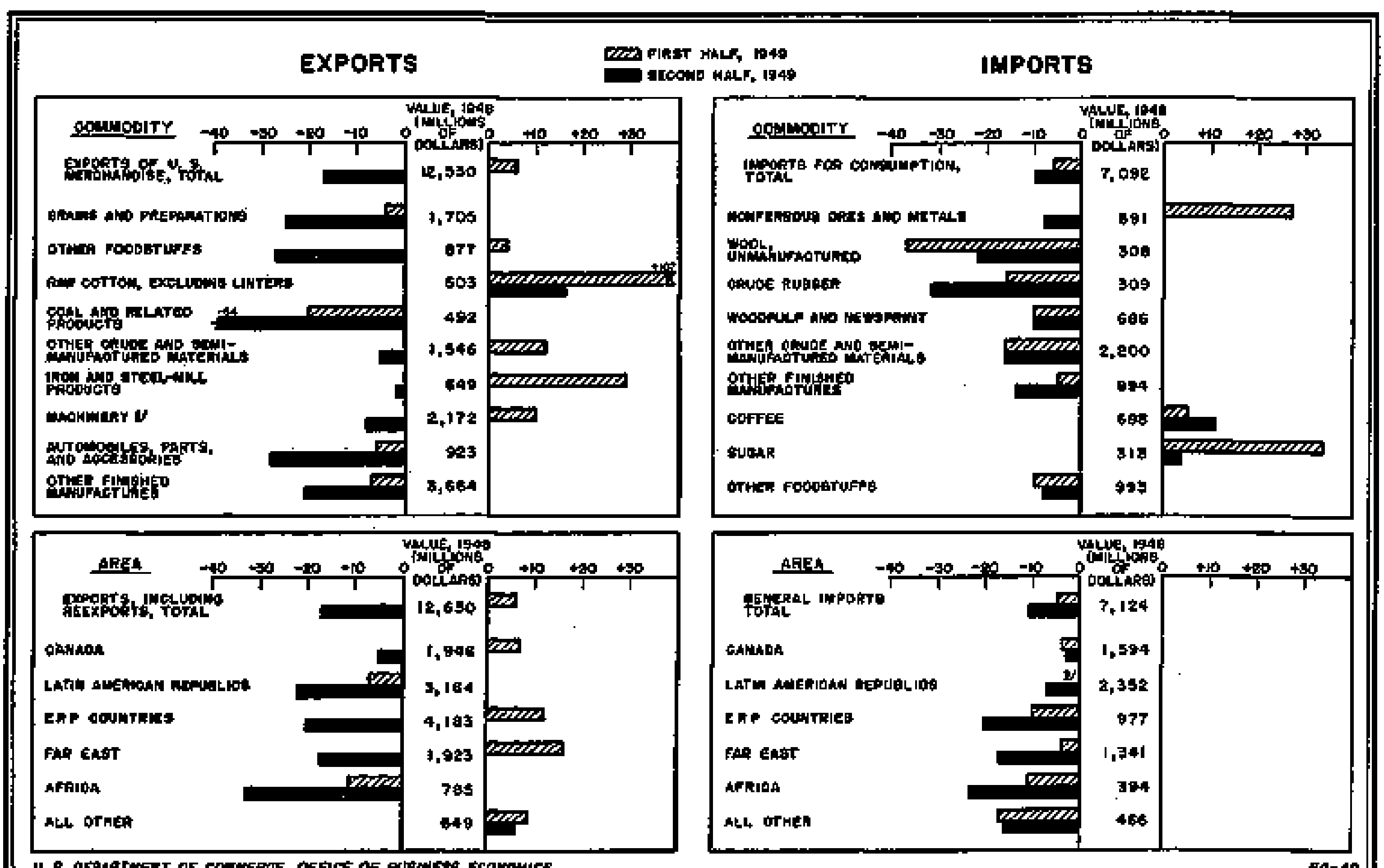
Despite the expansion in output to or even beyond prewar levels in Europe and the at least partial satisfaction of many deferred demands both in those areas most directly concerned in the recent war and in other areas, there remained a heavy dependence upon United States goods.

The continued large import demands from abroad were met by United States producers, many of whom became increasingly interested in foreign markets as in many fields domestic outlets began to absorb a smaller portion of the greater productive capacity available.

Concurrently, this country's demand for foreign goods contracted with the general economic adjustment described in earlier chapters of this review. Domestic requirements for some major raw and semiprocessed imports declined and were filled in part from inventories; and domestic output of similar or competitive materials displaced other imports, many of which now became even less able than previously to compete pricewise in the American market.

Inevitably, the unbalanced postwar trade relationships were reflected in price disparities in international markets, and widespread foreign currency devaluations in the latter part of the year were undertaken in an effort to bring about adjustments in the external currency values which would

Chart 16.—United States Foreign Trade: Percentage Change in Value, First and Second Halves of 1949 from 1948 [1]



[1] Percentage changes are based upon data for the first 6 months of 1949, last 5 months of 1949 (except imports of sugar for which 6 months data are available), each raised to an annual rate, and 12 months, 1948.

[2] Include agricultural, electrical, and industrial machinery, and tractors, parts, and accessories.

[3] Percentage change is negligible and does not show on chart.

Source: Basic data, U. S. Department of Commerce, Bureau of the Census.

relieve balance-of-payments pressures while fundamental adjustments were undertaken.

Exports high through midyear 1949; imports fall

During the first half of 1949, exports from the United States reached an annual rate of $13,400 million, $700 million above the rate for the previous year. Since at the same time commodity imports into the United States provided foreign countries with 300 million fewer dollars at an annual rate than in 1948, the higher exports were financed chiefly by increased United States Government foreign-aid payments and renewed inroads upon foreign reserves of gold and dollars.

Chart 16 compares changes in the annual dollar rates of exports and imports by areas and by commodities during the first and second halves of 1949 with the rate in 1948. Western Europe and the Far East, to which virtually all United States Government foreign-aid expenditures were directed, accounted for most of the expansion in United States exports during the first half of 1949.

That foreign economic recovery was progressing under the stimulus of American aid is indicated by the commodity composition of the expansion in United States exports to these areas. The increase during the first 6 months was chiefly in shipments of raw cotton, machinery, and other goods to be used in foreign production lines rather than for immediate consumption.

By contrast, United States shipments to Latin America and Africa in the first 6 months of 1949 fell below the 1948 rate. In many of these countries demand and supply were equated either through satisfaction of the deferred demand or through rising prices and declining currency values. While demands for imported goods had thus receded to some extent, they were subject to further curtailment by tighter import restrictions (especially drastic in the Union of South Africa and Argentina) imposed to conserve, and if possible, strengthen depleted dollar resources.

The reduction in this country's commodity imports, from an annual rate of $7,500 million in the fourth quarter of 1948 to an annual rate of $6,400 million by the second quarter of 1949, was more than could be explained by seasonal factors and the moderate contraction in the gross national product of this country. The drop in imports was due mainly to the relatively serious decline in consumption of some major imported products such as wool, rubber, woodpulp, and burlap. A further reduction in imports of these and other commodities, moreover, resulted from the desire on the part of domestic industry to reduce previously accumulated stocks in view of the more ample conditions of supply and, in some cases, from expectations of further price reductions.

By midyear it had also become apparent that imports from Europe, for which prices remained comparatively high and even increased in some cases, were encountering increasing difficulties as the trend away from a "sellers" market gradually developed in this country. Such imports as automobiles, tractors, textiles, and iron and steel products had been seriously curtailed (see table 15) as the supply of more attractively price domestically produced items became more ample.

The net result of the lower imports and high exports during the first half of the year was an increase in our export surplus with practically every area except the Latin American Republics and Africa.

Lower exports after June; imports register further decline

In July 1949, total United States exports declined to $10,800 million on an annual basis and remained near that rate for the remainder of the year. The drop in shipments extended to almost every major area and commodity group (see chart 16). This reduction was primarily a consequence of the tighter import control measures instituted during the second quarter of the year, particularly by the United Kingdom and other countries in the sterling area, to halt the rapid drain on their reserves of gold and dollars.

Also contributing to the decline in foreign purchases from the United States was the fact that in some foreign countries supplies from current production gradually became more closely equated with prevailing demands. These countries were thus in a position to reduce their imports and also to market more goods abroad at prices reflecting relatively favorable supply conditions. The less countries were successful in reducing the gap between demand and supply the more urgent was the need to devalue their currencies as a means of reducing domestic demands for imported goods and diverting a greater volume of merchandise to markets abroad.

The generally higher production abroad made possible another development which contributed to the fall in United States exports. This was the increased success of efforts on the part of most countries to obtain imports from areas other than the United States, as evidenced by the numerous bilateral trade agreements concluded between foreign countries during 1949, and more concretely, by available data covering the foreign trade of other countries. While United States exports to Western Hemisphere countries and to Western Europe registered sizable declines from the second to the third quarters of the year, shipments from each of these areas to the other showed some increase. This development will be further accentuated by the greater ability, since devaluation, of foreign goods to compete in price with United States products in third markets.

Table 15.—Imports for Consumption into the United States of Commodities from the 16 Countries Participating in the European Recovery Program

[Millions of dollars]

Commodity	1948 Quarterly average	1948 Fourth quarter	1949 First quarter	1949 Second quarter	1949 Third quarter	1949 Fourth quarter[1]
Total	242.5	271.1	238.9	177.6	186.2	230.0
Woodpulp	14.8	7.8	5.6	4.8	6.0	13.6
Newsprint	6.5	5.8	6.0	2.2	3.1	1.3
Clocks, watches, and parts	16.0	17.4	11.6	12.3	13.7	15.0
Fibers and textiles, total	41.3	42.0	37.6	24.4	29.7	40.6
Woolens and woolen manufactures	12.7	14.2	11.8	8.7	12.3	14.7
Cotton manufactures	7.3	8.1	7.4	5.2	5.4	7.5
Synthetic fibers and manufactures	7.1	5.0	3.1	1.0	1.0	2.7
Flax, hemp, and ramie manufactures	6.6	5.8	5.7	4.2	4.7	5.7
Other fibers and textiles	9.6	10.1	9.6	5.2	6.3	10.0
Cigarette leaf tobacco	11.1	10.4	10.4	10.5	10.8	9.8
Diamonds	10.8	8.7	5.5	5.4	7.5	9.9
Whiskey	9.7	12.4	8.0	9.6	9.0	14.1
Other beverages	4.3	6.0	3.6	4.4	3.3	6.1
Steel mill products	8.3	18.0	27.8	12.0	3.4	2.4
Iron and steel scrap	1.7	3.6	10.9	7.6	2.2	.3
Iron ore	2.3	2.7	.9	3.4	8.4	3.3
Automobiles	7.4	9.5	4.5	1.1	.5	2.1
Tractors	3.1	3.7	3.2	([2])	([2])	([2])
Coal tar products	4.0	3.6	3.4	3.3	2.0	3.6
Other chemicals	3.7	3.8	4.3	3.5	1.0	4.3
Chinaware, porcelain, earthenware and glassware	3.8	4.6	4.0	3.8	4.2	4.1
Furs and manufactures	4.4	2.2	3.7	3.1	3.2	2.9
Sardines	2.4	2.2	1.9	1.3	1.9	1.6
Other fish and fish products	1.7	2.3	2.1	1.5	.9	2.4
All other imports	87.6	105.0	83.4	65.5	76.9	92.3

[1] October-November at quarterly rate.
[2] Less than $50,000.

Source: U. S. Department of Commerce, Bureau of the Census.

The further contraction in United States imports during the third quarter, although partially a seasonal movement, reflected in general an extension of developments which had become apparent earlier in the year. Relatively large supplies of nonferrous metals imported during previous months of 1949 remained unconsumed and hence lessened the need for current imports. Price uncertainties undoubtedly added some further impetus to the decline in import demands, particularly for goods supplied by Western Europe and other countries where currency devaluation was anticipated in many quarters.

Since the decline in imports during the third quarter was substantially smaller than the corresponding contraction in exports, there occurred a substantial reduction in the United States export surplus, especially with Western Europe. In October and November, moreover, there was a further drop in the trade deficit of other countries with the United States as a result of an upswing in imports and a continued fall in exports.

While the heavier United States foreign buying during the last months of the year included a substantial amount for the Christmas trade and larger seasonal shipments of products such as coffee, it also reflected the general recovery in United States consumption of raw materials in the latter half of 1949, and the more limited ability of consumers to draw upon inventories, many of which had now become relatively low.

Currency devaluations abroad late in year

While the currency devaluations had been in effect for only about a quarter of the year, and it is too early to state definitive conclusions as to the effects in United States markets, certain generalizations can be made upon the observed effects to date. Devaluations have had little effect on prices of major United States import commodities, most of which are determined by demands prevailing in this, the principal market. Prices of items such as whiskey, for which foreign supplies remained low relative to United States import demands at pre-devaluation prices, also remained unaffected.

For numerous products supplied by Europe (such as textiles, brandy, automobiles, olive oil, and leather goods) the drop after devaluation in delivered dollar prices, although generally not in full proportion to the reduction in foreign currency values, was nevertheless substantial. More important, delivered dollar prices currently being quoted by European producers of some items, such as certain iron and steel products, are below those prevailing for similar items produced in the United States.

As a result of such adjustments and the efforts on the part of these and other countries to improve techniques of marketing abroad and to reduce costs in both home consumption and export industries, foreign competition will presumably assume a gradually more prominent role in regulating world trade. At the same time, it should be feasible to eliminate many of the import and foreign exchange controls by means of which foreign countries are currently attempting to achieve closer balance in their international accounts.

Financial Developments

FINANCIAL developments in 1949 differed in several important respects from the pattern which had prevailed throughout the greater part of the postwar period. One of the most significant changes from 1948 was the sharp reduction in the demand for new capital funds by business—a reflection of the reversal of the expansionary forces which had previously dominated the general economic situation.

The terms on which funds were made available to both business and consumers were eased during the year and interest rates were generally lower. This was in part the result of actions taken to cushion the recessionary tendencies which emerged early in the year. The reduction in business demand for funds was, however, also important in this respect.

Some moderation in the terms of equity financing was also indicated by developments in the stock market in 1949. The generally downward trend of stock prices which began in the latter part of 1946 persisted with some interruptions through the spring of 1949. A strong upward surge of stock prices, however, occurred in the second half of the year at a time when corporate earnings were well below and corporate dividends only slightly above the postwar peak reached in 1948.

Business requirements lower; those of Government higher

With gross private domestic investment lower in 1949, there was less reliance by business on external financing. There was, however, a substantial increase in the financing needs of the Federal Government as a result of a shift from a surplus in 1948 to a deficit in 1949. This shift largely counter-balanced the reduction in business investment which occurred last year.

With the Federal Government shifting from a surplus to deficit position and thus increasing its outstanding debt, sales of Federal securities were channeled largely into the hands of nonfinancial business and consumers. Although commercial banks also added to their holdings, there was an offsetting reduction at Federal Reserve banks, and hence little net change in the over-all banking system's ownership of Federal securities.

Increased liquidity characterized most of nonfinancial business but was especially pronounced in manufacturing. In this sector financial developments permitted not only an increase in cash and U. S. Government securities at a time when prices and sales were lower, but also allowed a substantial reduction in short-term debt.

At the consumer level the net change in cash and U. S. Government security holdings was small, and in contrast to business, indebtedness continued to rise with the increased housing and greater availability of durable consumer goods and the easing of credit terms. On an over-all basis, indebtedness of both business and consumers at the end of 1949 was not abnormally large, if viewed in historical perspective, with reference to the relation of servicing charges to the level of incomes currently earned.

Business Financing

Recent changes in the financing of business are pictured in table 16 showing the principal sources and uses of funds of nonfinancial corporations. In this table, expenditures for fixed assets and additions to other assets are classed as "uses" of funds; corporate savings, depreciation allowances, net sales of new corporate securities and increases in other liabilities are classed as "sources". Decreases in assets or liabilities are, for convenience, shown as negative uses or sources respectively.

Table 16.—Sources and Uses of Corporate Funds 1946–49 [1]

[Billions of dollars]

Item	1946	1947	1948	1949 [2]
Uses:				
Plant and equipment	11.8	16.0	17.3	16.0
Inventories (book values)	11.2	8.9	6.2	−3.7
Receivables	4.8	5.7	2.3	−.7
From business	5.1	4.2	.9	−1.8
From consumers	1.7	1.7	1.4	.9
From government	−2.0	−.2	.2	(3)
Cash and deposits [4]	1.1	1.3	−.1	.9
U. S. Government securities [4]	−5.9	−1.6	.1	1.9
Other current assets	−.7	−.1	(3)	−.2
Total	[4] [illegible]	[illegible]	[illegible]	14.2
Sources:				
Retained profits [5]	7.7	11.4	12.6	7.8
Depreciation	4.2	4.9	5.6	6.2
Payables (trade)	4.0	2.6	.9	−1.6
Federal income tax liability	−1.6	2.7	.9	−2.3
Other current liabilities	1.8	.6	(3)	.3
Bank loans (excluding mortgage loans)	3.3	2.6	1.2	−1.8
Short-term	1.9	1.5	.5	−1.4
Long-term	1.4	1.2	.6	−.4
Mortgage loans	.6	.8	.7	.5
Net new issues	2.3	4.4	6.0	5.1
Stocks	1.3	1.3	1.2	1.3
Bonds	1.0	3.1	4.8	3.8
Total	[4] 22.3	30.0	27.7	14.2
Discrepancy	−.1	−.7	−1.8	0

[1] Excluding banks and insurance companies.
[2] All data for 1949 are partly estimated.
[3] Less than $50,000,000.
[4] Previously published tables, cash and U. S. securities were classified as sources of funds since unusually large wartime accumulations made possible a substantial reduction of these liquid assets to finance expansion in the early postwar period. In view of the substantial increase in these assets in 1949—reverting to a more normal status as a use of funds—these items were changed to the "uses" side. The shift in classification affects particularly total sources and uses in 1946 which were reduced by $4.7 billion. Totals for the years 1947 and 1948 were changed but slightly since there was little or no net change in these assets.
[5] Retained profits include depletion. Actual fourth quarter data on corporate profits are not yet available. In deriving retained earnings and Federal income tax liability estimates for 1949, estimates of corporate profits for the year were obtained in the manner described in footnote 3 of table 3.

Source: U. S. Department of Commerce based on Securities and Exchange Commission and other financial data.

$12 billion reduction in corporate requirements

Total uses of corporate funds in 1949 amounted to about $14 billion, or $12 billion less than in 1948. As may be seen from the table, there was only a moderate decline in plant and equipment outlays of corporations from $17.3 billion in 1948 to $16 billion in 1949.[1] In contrast, the book value of corporate inventories fell by $3.7 billion in 1949 reversing the sharp upswing which was maintained throughout the earlier postwar period. The reversal of inventory trends alone, centering primarily in manufacturing corporations, accounted for a net reduction of about $10 billion from 1948 to 1949 in the total demand for new capital; for whereas the expansion of inventories in 1948 required about $6.3 billion of new financing, the 1949 contraction—a negative use or a source of funds—actually freed about $3.7 billion for other uses.

Reduced requirements also prevailed in corporate financing of customers. Throughout the first three full years of the postwar period, expanding sales of corporations were accompanied by increased credit granted to consumers and other customers. During 1948, the credit expansion, while below that of the previous year, amounted to the sizeable total of $2.3 billion. In 1949, corporations reduced their customer credit outstanding by $700 million.

A more meaningful picture of the financial requirements associated with the changes in corporate receivables is obtained if viewed in connection with corporate payables, since a large part of the movement of these items reflects intercorporate business financing. (For example, if one corporation sells its product on credit to another corporation, corporate receivables and payables both rise by an equal amount and no new outside financing is required at that time.) Referring to the table, it may be noted that the drop of $1.6 billion in corporate receivables from business firms was equal to the reduction of corporate (trade) payables. Thus, net receivables (total receivables less payables) rose by about $0.9 billion, largely reflecting the further extension of credit to consumers. This increase was, however, somewhat lower than that which occurred in 1948.

[1] Unlike related data in the gross national product accounts, these estimates of plant and equipment expenditures exclude capital outlays charged to current account.

Corporations add to liquid assets

The shifting emphasis in corporate financing in the postwar period is clearly reflected in the trend of liquid asset holdings. Emerging from the war in an unusually liquid state as a result of the limited private capital investment outlets during the war years, corporations helped finance their heavy initial postwar capital requirements by drawing on their accumulations of U. S. Government securities. Liquidation of these securities in 1946 exceeded additions to cash by about $4.7 billion. In 1947 and 1948 on the other hand, holdings of liquid assets—cash and U. S. Government securities—underwent little change. Relatively, however, the liquidity position of corporations continued downward in these years as the volume of activity and prices continued to rise. By way of contrast, in 1949 corporations were in a position to add almost $3 billion to their liquid assets, an increase which occurred while sales and prices were falling moderately. As a result of these changes, there was a substantial increase in corporate liquidity in 1949.

Lower business savings and borrowing

In meeting the reduced financial requirements in 1949, corporations continued to rely primarily on such sources of funds as retained profits and depreciation allowances. Corporate dividend payments were up slightly from 1948 to 1949; hence the full impact of the lower profit levels in 1949 was reflected in retained corporate earnings which fell by about $5 billion from 1948. Taking into account the moderate increase in depreciation, the total for these sources in 1949 amounted to $14 billion as compared with $18 billion in 1948. With total requirements showing a larger percentage decline, internal financing, including changes in tax reserves as well as retained earnings and depreciation allowances, was relatively more important in 1949 than in the preceding year.

With working capital requirements reduced, corporate business liquidated about $1.8 billion of outstanding bank loans during 1949, thus reversing the steady upward trend of business borrowing from banks which had been under way since the end of the war. The reduction was largely confined to the first half of the year, and as might be expected from the change in financing requirements, was centered in loans with maturities of less than a year.

Long-term corporate debt continued to expand throughout 1949 reflecting the still heavy fixed capital requirements of business corporations. Despite the substantial postwar increase in interest-bearing indebtedness, corporate interest payments in 1949 continued low in relation to corporate earnings. These payments represented, for example, approximately 8 percent of corporate profits before taxes and interest payments in 1949, as compared with 20 percent in 1940 and 30 percent in 1929.

Net new securities issues of $5 billion

Sales of new securities (less retirements) by nonfinancial business corporations continued to be an important source of capital funds in 1949, although the total of $5 billion was about $1 billion lower than in the peak year 1948. The $1.3 billion sales of equity securities was at about the same level as in each of the three preceding years. Net sales of debt issued were about $1 billion lower than in 1948 but still substantially higher than in 1946 and 1947. While the proportion of equity to total new issues rose somewhat in 1949, the equity share of total funds raised in the securities markets has, since 1947, remained below the ratios during comparable periods of economic activity in the past.

If, however, account is taken of the considerable volume of financing from retained earnings in recent years, the share of total equity financing relative to total requirements compares favorably with the prewar proportions.

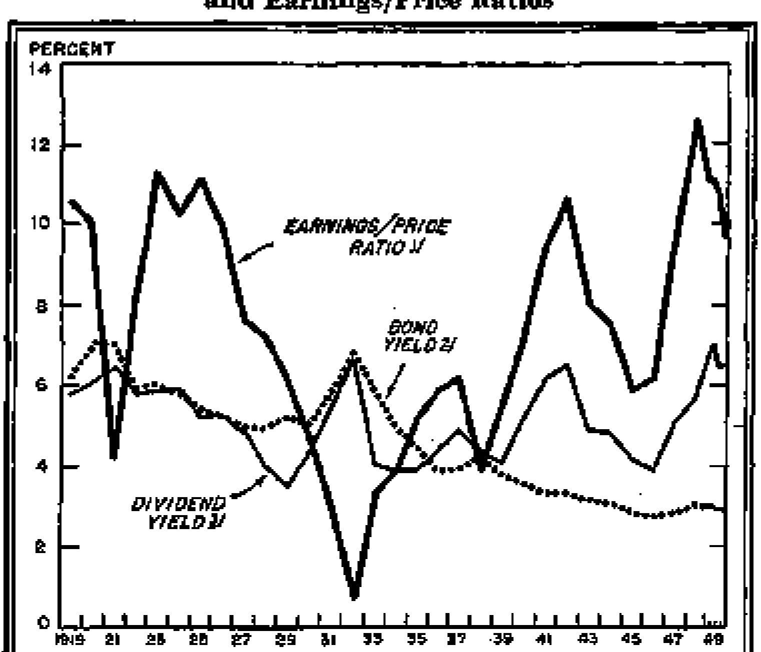
In view of their still heavy financing needs, public utilities maintained their net sales of securities in 1949 at the volume of the preceding year. It may be noted that these corporations placed more emphasis on stock issues in 1949 than in previous postwar years and their increased offerings largely offset reduced sales of equity issues of other major corporate groups.

Reduced Cost of Raising Funds

A general easing of terms of financing for both business and consumers occurred in 1949. This was a result of direct government actions towards easier credit coupled with the lower investment demand of business. Following the downturn of general business activity early in the year, legal reserve requirements of banks were lowered thus freeing bank resources for income-yielding investments. At the end of June, the Federal Reserve Board announced a change in policy related to its investments in U. S. securities which aimed at moderating terms of borrowing and preventing any pressure on bank lending activity which might be associated with a downturn in business activity.

Consumer borrowing—both long and short-term—was stimulated by the elimination of controls on instalment purchases which, after a temporary lapse, had been reimposed in late 1948, and by a broadening of the secondary market for "G-I" mortgages. Action was also taken to increase the availability of credit for stock purchases by reducing margin requirements to 50 percent, a rate not much higher than in the late prewar and wartime (through 1944) period when a 40 percent requirement was in effect.

Chart 17.—Corporate Bond and Common Stock Yields, and Earnings/Price Ratios



[1] Based upon data for common stocks listed on the New York Stock Exchange; total reported earnings for the year expressed as a percentage of the total market value (number of shares times average prices) of these stocks.

[2] Data are averages of daily figures.

[3] Based upon data for common stocks listed on the New York Stock Exchange; total dividends for the year expressed as a percentage of the total market value (number of shares times average prices) of these stocks.

Sources of data: Bond yield, Moody's Investors Service; earnings/price ratio and dividend yield through 1938, Common Stock Indexes, Cowles Commission Monograph No. 3, and for the following years extrapolated on the basis of movements shown by Moody's earnings, stock prices, and dividend series.

With reserve requirements reduced, banks increased their holdings of short-term U. S. securities, which were for the most part purchased from the Federal Reserve System. The stimulus to find investment outlets for funds freed by the reduced requirements served to increase the availability of funds to private borrowers. In 1948, banks found it necessary to sell U. S. securities to the Federal Reserve in order to secure funds for business and consumer loans.

Yields on U. S. Government securities reacted quickly to the easier monetary conditions. Prices of government issues, especially those with intermediate and short-term maturities, rose substantially in the middle months of the year and thereafter steadied or continued slowly upward to levels which involved, for the year as a whole, sizable reductions in yields on both long- and short-term securities.

The easier financing terms for corporate business are reflected in the trends shown in chart 17. Already low in historical perspective at the start of the year, though higher than in the immediate postwar years, the yield on corporate bonds declined from 3.1 to 2.9 percent in 1949, bringing the average to the lowest point since early 1947. Terms of equity financing were also down in 1949, after reaching a 3-decade high in 1948. A decline in corporate earnings in 1949 coupled with a sharp upturn of stock prices in the second half of the year reduced the earnings-price ratio to 9.7 percent by the last quarter of the year as compared with an average of 12.6 percent in 1948. By the end of the year, the relation of earnings to stock prices was down to the 1947 level. Dividend yields also turned down in the second half of 1949.

At the close of the year, terms of equity financing in general did not compare unfavorably with those which prevailed in the prosperous period of the middle twenties. Since interest rates are currently well below those prevailing in that earlier period, however, the relative attractiveness of borrowed funds has been increased considerably.

Consumer Financing

The major factor in determining the level of consumer spending is, of course, the current income received by individuals. Since the end of the war, however, spending out of current income has been buoyed by record holdings of liquid assets and by the relatively low volume of consumer debt. Actually holdings of U. S. Government securities by individuals and unincorporated businesses continued to increase through the postwar period, although in 1948 and 1949 the net purchases amounted to only about $1.0 billion a year. During each of the last 2 years, holdings of cash were reduced by an approximately equal amount. Individuals have, of course, continued to add to their savings in the form of insurance reserves, shares in savings and loan associations, and to an increasing extent in the most recent period, in the form of purchases of securities other than Federal issues.

At the same time, consumers increased their outstanding debt. During 1949, their mortgage debt rose by about $3.5 billion and their short-term instalment indebtedness by $2.0 billion. The latter rise was accounted for almost entirely by increased buying of consumer durables, particularly automobiles. While easier terms, following upon the removal of all government restrictions by mid-1949, undoubtedly contributed to the high volume of new consumer short-term borrowing, a major influence in the 1949 rise, as in previous postwar years, was the expanded flow of goods available to consumers. Despite the rapid postwar rise in consumer debt, however, the amount outstanding at the end of the year was not unusually high relative to consumer income currently being earned.

Employment and Labor Developments

THE demand for labor continued strong throughout most of 1949. However, with activity reduced from the peak reached in late 1948, notably in manufacturing, and with the more effective organization of production, job opportunities were fewer.

The average number of civilian workers employed during the year was 58.7 million—670,000 below 1948 but exceeding the employment in any peacetime year except 1948. With the labor force larger, unemployment rose above the minimum levels characterizing the earlier postwar years, expanding from an average of about 2 million workers in 1948 to 3.5 million in 1949. With the improvement in economic conditions around midyear, total employment increased somewhat although it showed no further significant gains after August. In the closing months of the year employment was moderately below the postwar highs of a year earlier.

Along with reduced employment, weekly hours worked were also cut, due in part to the increase in involuntary part-time work and the lessened necessity for overtime work as production overtook demand in more and more lines. Thus, the man-hour input in 1949 in the private sector of the economy was below 1948. Real private national output was not materially different from 1948 so that output per man-hour in this sector apparently increased moderately. This conclusion is necessarily based on an approximate measure of the real output and man-hours because of the inadequacy of the basic data and the difficulties in the problems of measurement.

The productivity gain in 1949 is attributable in part to the large volume of new and more efficient equipment installed as reflected by the extraordinarily high expenditures of producers of capital goods in the postwar years. Another contributing factor was the greater availability of resources during most of the year in relation to output, which had the effect of removing most production bottlenecks and providing an adequate flow of materials.

Major labor force trends

The labor force, including the military services, averaged 63.6 million in 1949, more than 800,000 over 1948. The increment was only moderately in excess of the normal increase based upon population growth. About a fourth of the gain in the labor force between 1948 and 1949 originated in the entry of veterans of World War II who had not been job seekers in 1948, a fact which accounts for the more than normal increase in the labor force last year. It is to be noted that the growth of the civilian labor force in 1949 was roughly half that of the preceding year.

Women, youngsters, and older workers continued working in proportions above the prewar pattern with the result that the labor force as a whole remained larger than is implied in the labor-force projections based on the trend in prewar participation rates. As a group, women comprised 29 percent of the labor force in 1949; in 1940 they accounted for a little more than 25 percent. About 1 million more boys and girls, aged 14 to 17, were both employed and enrolled in school at the beginning of the school year than at the time of the 1940 census.

At the same time relatively fewer young men between the ages of 20 and 24 were in the labor force, mainly because of the extended schooling of veterans. Similarly, the proportion of working women, aged 20 to 34, was well below the prewar pattern because of increased responsibility for home and child care.

Employment in 1949

Total civilian employment averaged about 58.7 million, 670,000 under 1948, but 700,000 above 1947. Agricultural employment on the average was slightly higher during the first half of the year, largely because of more favorable weather conditions, but by the year's end the number of farm workers was about 600,000 below December 1948. After midyear, nonagricultural employment rose for a time and, apart from the adverse effects of the coal and steel strikes, remained at the higher level. In each of the last four months of 1949 nonagricultural employment was about 300,000 below the corresponding months a year ago.[1]

The most marked decline in nonagricultural employment occurred in manufacturing in which the number of employees averaged 14.1 million in 1949, about 1.2 million under 1948. Even so, average employment in manufacturing in 1949 comprised a slightly higher proportion of total private nonagricultural employment than in 1929 and 1939. Less-severe losses were experienced in transportation and mining. Trade, services, and construction remained virtually unchanged at the high 1948 average. Government employment, especially at the State and local levels, and finance increased slightly.

Thus the commodity-producing industries which had been operating at unusually high levels decreased their employment as postwar backlogs were replenished. Two major exceptions, the construction and automobile industries, held their workers while increasing output indicated improved efficiency and better-balanced materials supply during most of the year.

The trend within manfacturing

The loss in employment in manufacturing, both in absolute and relative terms, was generally much greater in the durable-goods industries than in the nondurable group, as is evident from chart 18. This chart shows a comparison of the employment change by percent and in numbers for 20 major manufacturing industries arranged in the order of the volume of change from September 1948 to September 1949. September was selected as the month of comparison rather than some later month since employment was at or near the postwar peak in September 1948 and the volume of employment in some major industries in the months after September 1949 was influenced temporarily by the effects of the steel strike.

Because of the marked increase in activity in nondurable goods beginning in June, employment in these industries as a whole during the last quarter was only about 3 percent below the 1948 peak. The decline in the durable-goods industries was deepened in October and, to a lesser extent, in November by the direct and indirect effects of the steel strike. The decline in employment from September 1948 to September 1949 was about 12 percent which represented a loss of about 1 million jobs.

Unemployment higher during the year

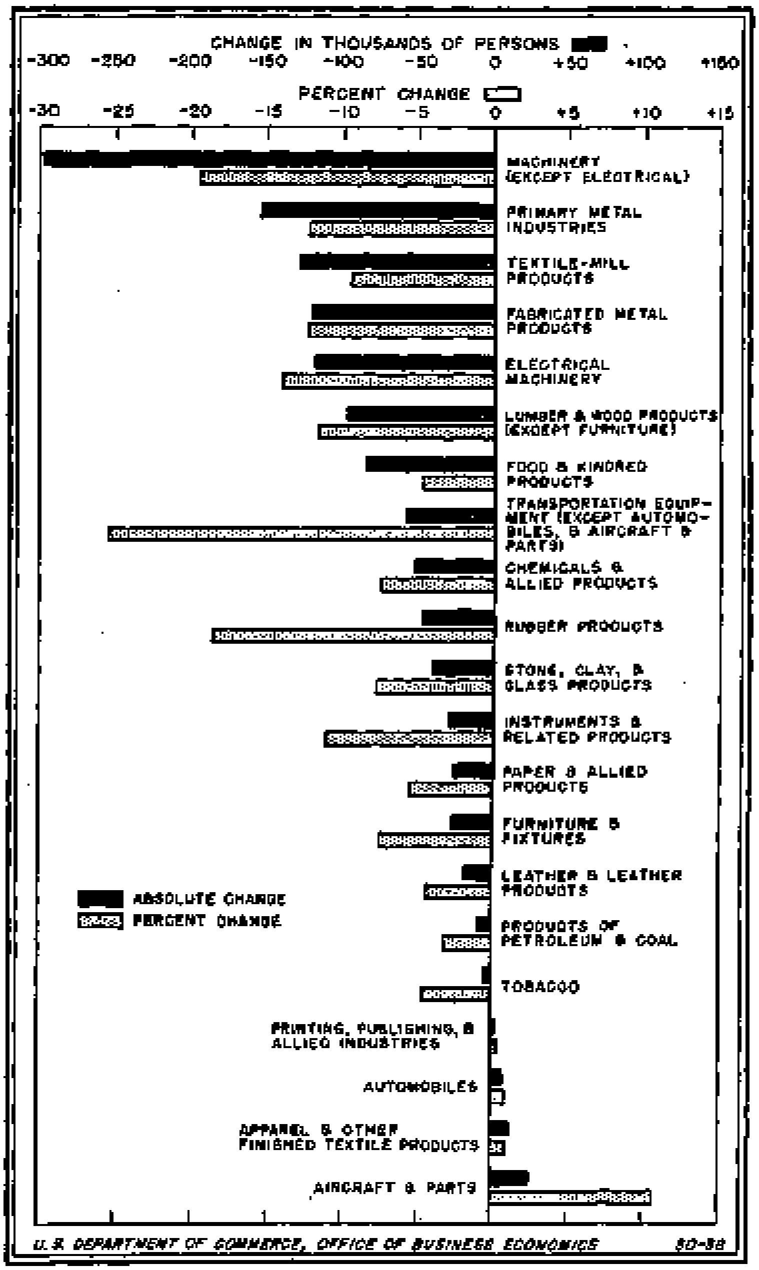
Unemployment reached a seasonal peak of 4 million in July and remained around 3.5 million during the last five months of the year. Unemployment among men rose relatively more than among women, but unemployment rates during the last quarter were about the same, 5.6 percent of the respective labor force for both groups.

Unemployment and its relative incidence as a percent of the civilian labor force for the last three years, and for 1940, is shown below:

Year:	Average number unemployed (millions)	Percent of the civilian labor force
1940	8.1	14.6
1947	2.1	3.6
1948	2.1	3.4
1949	3.4	5.5

[1] Because of a change in sample in August 1949, the data are not strictly comparable, and according to census reports nonagricultural employment was probably closer to half a million below the level of December 1948. The labor-force data were similarly affected.

Chart 18.—Absolute and Percent Change in Employment for Major Manufacturing Industries, September 1948 to September 1949 [1]



[1] Include all major industry groups, except ordnance and miscellaneous.
Source of data: U. S. Department of Labor, Bureau of Labor Statistics.

The average duration of unemployment in December 1949 remained low, although somewhat above December 1948. Furthermore, of the 3.5 million unemployed in December 1949 about 2.7 million had been without work less than 15 weeks.

The concentration of unemployment in manufacturing centers in New England and a few other centers of specialized production became sufficiently serious to receive special attention from Federal and State authorities beginning about mid-1949.

Fewer job opportunities in 1949

Labor turn-over in manufacturing furnishes further evidence of the loosening of the job market in 1949. The rate of hiring remained below 1948, and about equal to 1939. Separation rates for all causes were about as high as 1948 and well above 1939, a year of increasing employment. The quit rate, which measures the rate of persons voluntarily leaving jobs, was well below 1948 and for the first time in the postwar period began to approach the prewar figure. During the first six months, the lay-off rate reached the highest level of the postwar period.

Decline in hours

Not only did nonagricultural employment decline, but average weekly hours dropped about half an hour between 1948 and 1949. Part-time employment, especially of the involuntary type, increased. The average number of workers, 38.5 million, who were employed 35 hours per week or more was down 5 percent from 1948, although total civilian employment was off only 1 percent.

Weekly hours worked in manufacturing averaged 39.1 in 1949, 1 hour less than in 1948. Rather sharp declines in hours worked occurred in the lumber and primary metal manufacturing industries. Many industries, including the textile, apparel, furniture, and rubber groups, however, raised hours rather sharply in the fall of the year, apparently in an effort to meet increased orders.

Most nonmanufacturing industries, including trade, construction, services, communication, and transportation reduced hours worked moderately during the year. In coal and metal mining, especially copper, average hours were down markedly.

Average hourly and weekly earnings higher

Because of moderately lower consumers' prices the average worker was better off in 1949 as a whole than in 1948. In manufacturing, real weekly earnings were up about 3 percent in contrast to the movement between 1947 and 1948 when the increase was negligible. Utilities workers fared even better. Coal miners, on the other hand, experienced a reduction in real weekly earnings with the shortened week, though their hourly earnings continued to rise.

Average hourly earnings for all wage earners increased between 2 and 3 percent from November 1948 to November 1949. Only workers in the transportation, communication, and gas and electric industries, with about a 12-percent gain, obtained substantially more than this. Establishment of the 40-hour week on railroads without loss of pay was an important factor. The rise in average hourly earnings in manufacturing during the period was slight.

These comparisons cover cash wages paid and do not include the income secured by employees in the form of insurance and retirement benefits. Settlements of labor disputes involved substantial increases in so-called fringe benefits of both contributory and noncontributory nature, including pensions, and various types of insurance became of increasing importance in 1949. These settlements will mean a significant rise in non-wage income although many of them did not become effective until 1950, especially those concerned with large numbers of workers in the steel and automotive industries.

Because of reduced hours worked, average weekly earnings increased less than the hourly rates—between 1 and 2 percent on an all-industry basis. The largest gains were obtained in transportation and public utilities, and trade and service. The fall pick-up in hours worked in manufacturing was sufficient to raise weekly earnings for the year to an average above 1948 and about equal to the peak reached in the last quarter of that year—although there was considerable variation in movement among individual manufacturing industries. Construction workers averaged slightly more in average weekly earnings in 1949 than in 1948. Wage rate increases were sufficient to offset slightly reduced hours. Both wholesale and retail trade reported relatively stable hours and moderately higher average hourly and weekly earnings. Telephone workers added about $3.00 to their weekly earnings and utilities workers gained about the same increase.

Wage rates in manufacturing, as indicated roughly by straight-time hourly earnings, increased by about 1.4 percent (September to September), slightly more in durable goods manufacture, less in nondurable goods. For the year as a whole, however, the increase in average straight-time hourly earnings in 1949 over 1948 was 5 percent, reflecting wage rate increases obtained in 1948 and maintained during the past year as well as some 1949 increases.

Labor relations and negotiations

With the moderate decline in the cost of living and reduction of employment and profits in many industries, no pattern of money wage increase emerged and the number and size of wage increases fell sharply. In a large number of industries the emphasis shifted from wage increases to pension and welfare benefits, resulting in protracted negotiations in which the steel and automobile industries set the pace.

A number of industries, including men's clothing and segments of the shoe and textile industries, agreed to the continuation of the existing wage rates. Concurrently, wage increases were extended to some workers in the public utilities, paper, printing, transportation, and the metal-working industries. In a few instances some workers accepted wage cuts for the first time in the postwar period, in accordance with previous agreements tying wages with the cost of living.

After more than 7 months during which industrial disputes resulting in work stoppages reached the lowest levels of the postwar period, the combined effect of the steel and coal strikes brought the total time lost for the year up to almost half that of 1946 and higher than any other postwar year except 1946. Man-days idle because of industrial disputes comprised 0.6 percent of estimated working time in 1949, more than twice the rate of the 1935–39 average.

The Business Population

THE business population during 1949 followed the course of business activity, declining in the first 2 quarters and then leveling off in the later months. Fewer businesses were started and discontinuances increased. Firms in operation during the year averaged approximately 3,900,000, about 2 percent lower than in 1948 but 18 percent or 600,000 more than in 1939.

Seasonal influences

Although the number of firms in operation has shown a steady decline since mid-1948, it is necessary to take account of the fact that the business population is subject to seasonal influences. Characteristically the number of new businesses formed is relatively high in the first half of the year; this was true even in years like 1946 and 1947. In this earlier period, however, the number of firms in operation was so low relative to the general level of business activity that births were substantially in excess of deaths and the seasonal declines in births in the second half of the year were still insufficient to cause a drop in the business population. Now that this "deficit" in firms has been made up, births and deaths are much more nearly in balance and these seasonal movements cannot be ignored.

On a seasonally adjusted basis the peak in the business population was reached about the end of 1948, even though there was an actual drop in the number of operating firms in the latter half of 1948.

The slackened pace of business activity in the first half of 1949 dampened the rise in new firm formation and the increasingly competitive market situation which accompanied the easing in prices and output took heavier toll of existing businesses. The 50,000 decline in the number of firms in operation was clearly counter-seasonal in character. Tentative estimates for the last 6 months of the year indicate little more than the usual seasonal decline in births while the stabilization of activity in the remainder of the year had the effect of reducing slightly the number of discontinuances. Consequently, the number of firms in existence at the close of 1949 was substantially unchanged from the mid-year level if seasonal influences are taken into account.

Change in factors affecting births and deaths

In 1949, to a greater extent than in other postwar years, movements in births and deaths were governed by changes in the general business situation. The trend in the number of new and discontinued businesses since 1944 is illustrated in chart 19, which brings out the initial rise and subsequent fall in the number of new firms and the steady upward movement in discontinuances.

During the war the number of firms fell quite sharply, while the immediate postwar years saw an extraordinary expansion of the business population until its normal relationship with gross national product was reestablished early in 1948. The decline in births between 1946 and 1948 was a reflection of the fact that a decreasing number of firms was required to make up the "deficit" in the business population which had been caused by the war. Although the number of discontinued businesses has shown a steady rise since 1944, the rise up to 1948 for the most part reflected the fact that a large proportion of the firms in the business population was very young and the mortality rate of such firms is ordinarily quite high.

Fewer operating firms in most industries

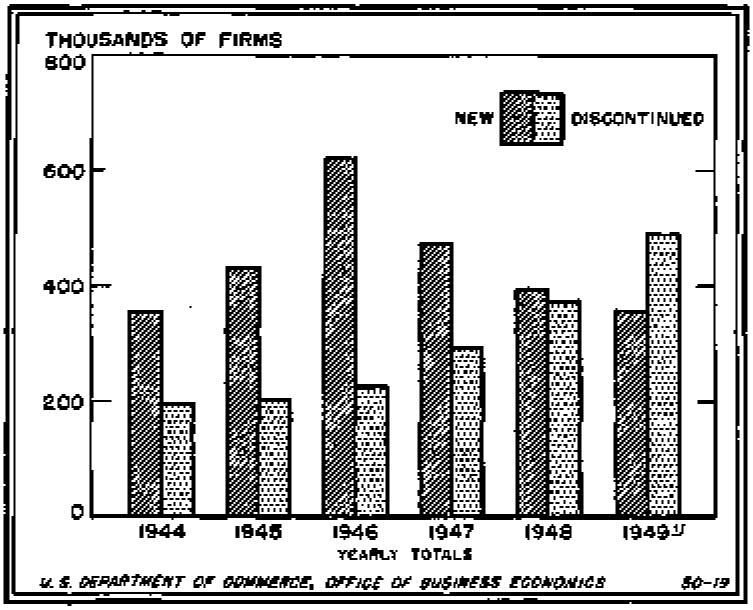
More firms were discontinued last year than were formed in each of the major industry divisions. In terms of the average number of firms in operation during the year, however, there appears to have been a small rise over 1948 in contract construction, as indicated in table 17. With the exception of mining and quarrying and manufacturing, however, the percentage declines in the major industries were quite small.

The excess of deaths over births in manufacturing represents a continuation of the 1948 trend. The decline in the demand for the products of manufacturing plants in the first half of 1949, which was evident in the sharp drop in manufacturing output, was accompanied by a marked rise in discontinuances in a number of industries, notably lumber and wood products, paper, chemicals and metals and metal products. Although detailed data on discontinuances in the second half of 1949 are not yet available for these industries, what information is at hand suggests that a drop in discontinuances accompanied the third and fourth quarter rise in manufacturing output.

Manufacturing loses much of postwar gain

Manufacturing represents the interesting case of an industry which has lost a large portion of its postwar growth. As can be seen from table 17, the number of manufacturing firms in operation during 1949 was fractionally below the number in existence during 1946, although it was about one-third greater than in 1939, or well above the all-industry average increase of 18 percent. In a few manufacturing industries there have been substantial declines from postwar peaks—food, tobacco, lumber, chemicals, stone and trans-

Chart 19.—Number of New and Discontinued Businesses



[1] Data are preliminary; include estimates for the last half of year.
Source of data: U. S. Department of Commerce, Office of Business Economics.

portation equipment have declined approximately 15 percent or more from the peak level of firms in operation. Most other manufacturing industries have experienced rather small relative declines while a few—petroleum, for example—have shown a fairly steady rise throughout the postwar period.

One reason for this behavior in the manufacturing population is traceable to the fact that, unlike the other major industry divisions, the business population in manufacturing increased steadily throughout the defense and war period. As can be seen in table 17, manufacturing firms in operation during 1943 averaged 7 percent above 1939. The manufacturing population has typically been much more volatile that other industries and the postwar demand for goods and high profits stimulated a very pronounced expansion in the number of manufacturing firms. Data on manufacturing profits indicate that profits of the smallest firms have undergone the greatest relative decline since 1947—just as earlier they had risen the most—and this has had adverse repercussions on new firm formation and business discontinuances.

Failures higher

Not only was there an increase in total discontinuances between 1948 and 1949 but in addition there was a sharp increase in the number of *failures* as reported by Dun and Bradstreet. As has been pointed out in previous issues of the Survey the Dun and Bradstreet failures represent only a small fraction of discontinuances, being confined primarily to bankruptcies.

For the year as a whole failures were about 75 percent greater than in 1948, although by prewar standards failures in the aggregate were still quite low, being 20 percent below the 1941 level. In terms of the business population increase since 1941 the comparison of failures over this period appears even more favorable. It is interesting to note, however, that all the decline in the number of failures since 1941 is concentrated in retail trade. In manufacturing and mining, wholesale trade, construction, and commercial service the number of failures in 1949 averaged higher than in 1941, but for the most part failure rates—failures relative to the business population—were lower than before the war.

Table 17.—Average Number of Firms in Operation and Percent Change, by Major Industry Divisions, Selected Years, 1939–49

Industry group	Average number of firms in operation (Thousands)						Percent change			
	1939	1943	1946	1947	1948	1949 p	1939–1943	1943–1948	1948–1949	1939–1949
All industries	3,306.6	3,045.1	3,605.4	3,872.0	3,976.1	3,907.7	−7.9	+30.6	−1.7	+18.2
Mining and quarrying	36.0	32.3	32.4	33.8	35.0	33.1	−10.3	+8.4	−5.4	−8.1
Contract construction	199.7	157.6	242.6	290.8	318.4	321.8	−21.1	+102.2	+1.1	+61.1
Manufacturing	223.0	238.8	301.9	320.5	327.9	297.1	+7.1	+37.3	−9.4	+33.2
Transportation, communication, and other public utilities	143.2	121.0	163.0	180.8	187.6	187.0	−15.5	+55.0	−.3	+30.6
Wholesale trade	137.0	141.5	181.1	196.6	202.1	201.9	+3.3	+42.8	−.1	+47.4
Retail trade	1,558.9	1,400.3	1,574.0	1,672.9	1,704.7	1,676.7	−10.2	+21.7	−1.6	+7.6
Finance, insurance and real estate	306.0	301.2	337.0	344.7	346.3	345.4	−1.6	+15.0	−.3	+12.9
Service industries	701.8	652.6	772.8	830.5	854.2	844.9	−7.0	+30.9	−1.1	+20.4

p Preliminary. Source: U. S. Department of Commerce Office of Business Economics.

Lower demand for capital goods by new firms

In previous issues of the Survey it was pointed out that the rapid expansion of the business population in the early postwar years gave rise to a considerable demand for new investment. In 1946 it is estimated that expenditures on new plant and equipment and inventories by new nonfarm business were 10 to 15 percent of the corresponding volume of investment by all nonfarm business. In a period of declining business population such as has occurred in the past year the demand for capital goods stemming from new firm formation has been of slight proportions. The rise in discontinuances has resulted in an increasing stock of capital goods—in the form of used plant and equipment—available for new businesses.

This is not to suggest that there is no positive demand for investment by new firms with a declining business population since the used equipment of the discontinuing firms may not be of the kind required by the new firms; in addition, there may be geographical differences in the areas where used plant or equipment is available and where new firms are being formed. Moreover, of the large number of new firms which came into existence in the 1945–47 period, many are still in a process of growth and are making new outlays for expansion.

Nonetheless, with new businesses some 45 percent lower than in 1946 and actually lower than deaths, new capital expenditures by new firms have shrunk considerably in the past few years and this has been an important element in the weakening of aggregate business demand for new investment.